Annual report

2019

General information

Business name	Public Limited Company (AS) Coop Pank
Registered	15.03.1992 in Tallinn
Legal address	Narva road 4, Tallinn 15014, Republic of Estonia
Commercial register number	10237832 (Commercial Register of the Republic of Estonia)
Date of first entry	19.08.1997
Phone	+ 372 669 0900
SWIFT/BIC	EKRDEE22
E-mail	info@cooppank.ee
Website	www.cooppank.ee
Auditor	AS PricewaterhouseCoopers
Commercial register number of the auditor	10142876 (Commercial Register of the Republic of Estonia)
Auditor's address	Pärnu road 15, Tallinn 10141
Balance sheet date of the financial statements	31.12.2019
Beginning and end of the financial year	01.01.2019 - 31.12.2019
Reporting currency	euro (EUR), in thousands

Members of the Supervisory board: Jaanus Vihand (Chairman), Priit Põldoja, Jaan Marjundi, Roman Provotorov, Märt Meerits

Members of the Management board: Margus Rink (Chairman), Hans Pajoma, Heikko Mäe, Kerli Lõhmus

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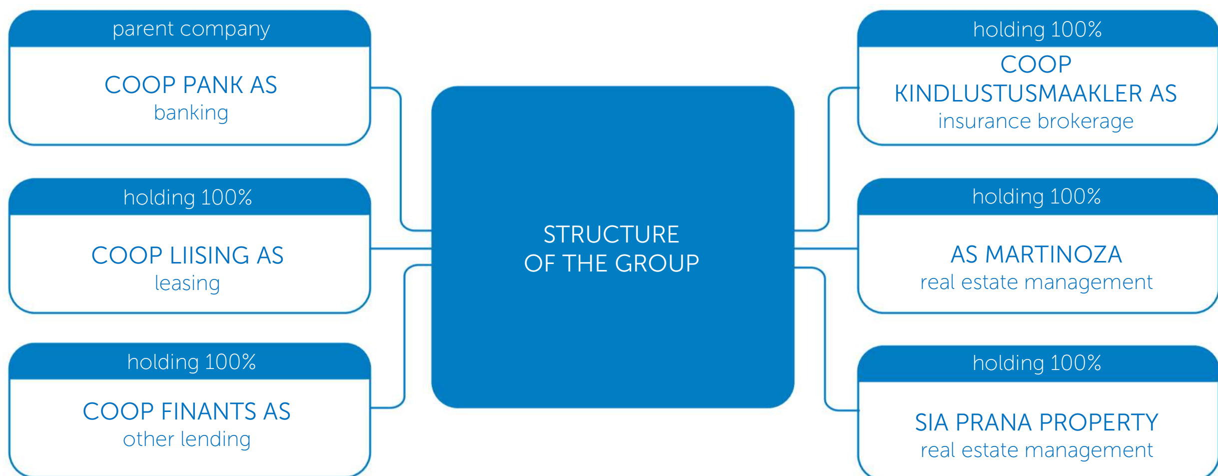
Management report

The following companies were part of AS Coop Pank Group (also used as "consolidation group", "banking group") as at 31.12.2019: Coop Pank AS, Coop Liising AS, Coop Finants AS, Coop Kindlustusmaakler AS, AS Martinoza and SIA Prana Property. The first five companies are registered in the Commercial Register of Republic of Estonia and SIA Prana Property in the Commercial Register of the Republic of Latvia.

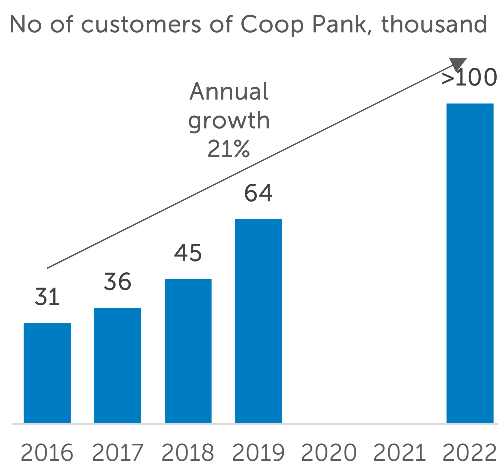


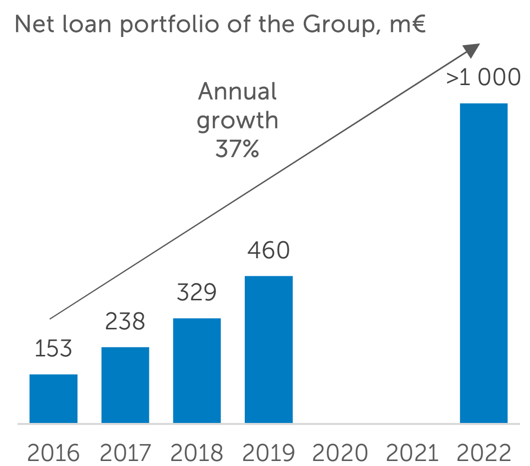
In august of 2019, the liquidation process of Bank's subsidiary CP Vara AS was concluded, and the company was deleted from the commercial register on 14 August 2019. However, on 27 August 2019, Bank's new subsidiary was listed in the register - Coop Kindlustusmaakler AS - whose main field of activity is offering insurance mediation services.

Targets

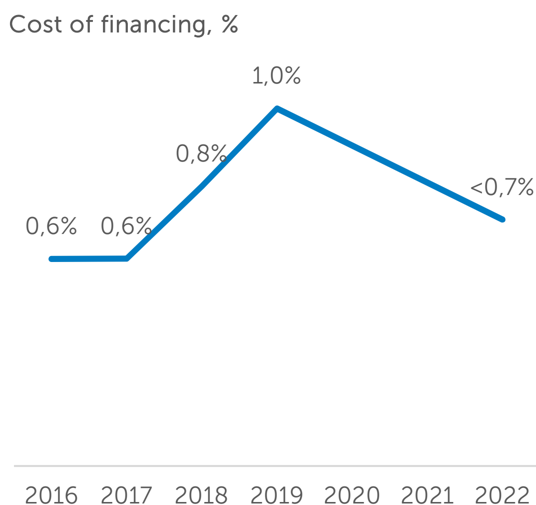
The mission of Coop Pank is to give a boost to Estonian companies and help people fulfill their dreams in every corner of Estonia - both in the countryside and in the city. Today's momentum in the Estonian banking market and the outlook for the coming years favor domestic capital-based banks with a rapid growth ambition and a willingness to focus on product innovation. During the first three years of operations (2017-2019) we have been able to operate all basic banking services and have grown the bank by 2-3 times. Now we want to expand our customer segments to focus on. In addition to the customer segment beyond the existing metropolitan areas, the bank will also target a city customer, who appreciates convenient domestic banking, and will focus more strongly on serving business clients.

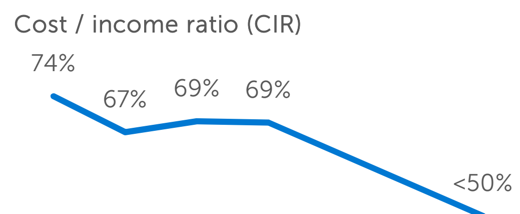
The Banking group’s strategy for the next three years (2020-2022) of operations involves a significant increase in number of customers and loan portfolio.

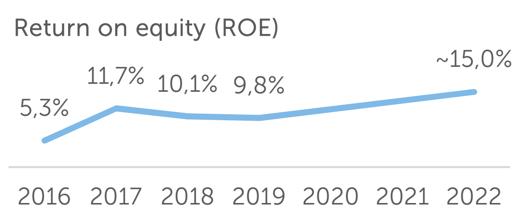




As a result of increasing business volumes, the Bank aims to achieve greater efficiency and offer higher return on equity to shareholders.







Strategy

We dare to do differently

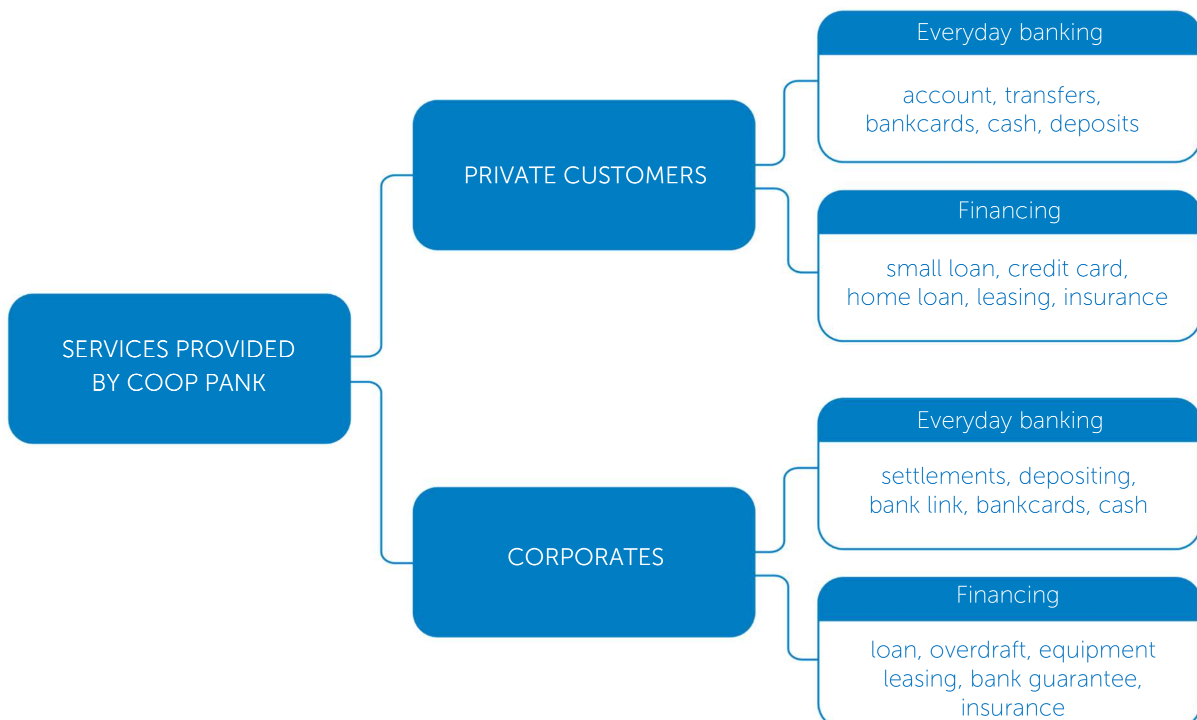
We are not a big bank, we are a different bank. In order to open an account at Coop Pank it is not needed to visit a bank branch, private indiviual can do so on our website or in Coop stores. Our mobile bank is "thin" i.e.. we provide only the most common banking services on this channel. Coop Pank does not have its own ATM network, but nevertheless, we offer our customers the best cash availability in Estonia. Custsomers of our bank can withdraw cash and deposit in bank account at the cash desks of Coop stores all over Estonia. In addition, cash can be withdrawn from ATMs of all banks.

We strive for the customer

To use our daily banking services, it is most useful to use the settlement packages - Rahn and Rändrahn. This way, for a fixed monthly fee, you get all the daily banking services in one package: debit card, wire transfers, cash. Coop Pank offers the highest market interest rate on current account balances for more profitable depositing of company funds - up to 0.25% per annum, and 1% per annum on current account balances for retail clients using Rändrahn banking services package. As of March 2019, the Bank has removed the daily settlement obligation from the terms and conditions of the home loan agreement and offers free loan insurance for home loan agreements that have been concluded since July 1, 2017. The consumer finance business line launched in 2019 a complete, fully automated decision engine that allows customers to apply for a loan in less than a minute, regardless of the device. Serving business clients, Coop Pank benefits from having a good knowledge of local business, faster financing decision-making and the flexibility of a small bank.

The main services are daily banking and financing

Our main services are daily banking and financing. In addition, we will build a modular technology platform to integrate third party services (such as property insurance, life insurance, investment account, pension fund, etc.) into the customer offering.



<u>Estonian company</u>

All our decisions are made here in Estonia. Our staff, the Management Board, the Supervisory Board sit around one table. Every week, if needed. This gives us the speed and flexibility of the decision-making process.

<u>Integration of banking and trading</u>

The bank is strategically owned by Coop, the largest retail chain in Estonia, with which it offers banking services in all Coop stores across Estonia. From November 2019, Coop began to offer Coop Pank customers the largest possible discounts that were available only to users of the payment client card Säästukaart Pluss. Coop Pank cardholders also started earning 10% more Coop Bonus Points than regular Säästukaart Pluss users. Coop Estonia has 340 stores in total, which means that Coop Pank can serve customers all over Estonia. This is how we live up to our promise - "We will keep life in every corner of Estonia".

Operating environment

The global economy grew around 3% last year. Although trade tensions between the US and China have somewhat eased, uncertainty remains high. Corporate investments are declining despite the mild monetary policy and favorable financing conditions of central banks. Equity markets have been optimistic over the past six months and major stock indices have generally risen since the autumn. In bond markets, interest rates have risen above all on longer-term bonds, which means that the yield curve has steepened and the spread between short-term and long-term interest has widened.

The economy of euro area grew 1.2% in 2019. The fourth quarter was the weakest since 2013. The main haltering is the fall in industrial production in Germany, which has been affected by trade tensions in the global economy, new emission standards and rising demand for hybrid and electric vehicles. The loss of confidence in the industrial sector is also beginning to affect the service sector. On 31 January 2020, the United Kingdom left the European Union. Until the end of 2020, there will be a transitional period during which trade relations and travel conditions will continue as before. New conditions are planned to be agreed this year.

Unemployment in the euro area remains low at 7.5% and wage growth fast at around 2.7%. Consumer confidence is therefore strong and retail growth is fast. However, employment growth in the euro area has slowed down. As a result of strong wage growth, the costs of companies are increasing, but so far they have not been passed on to customers. Exporting companies are supported by the weak euro exchange rate. Experts estimate consumer price index growth to be between 1.1% and 1.6% in the coming years, remaining below the European Central Bank's target of 2%.

The Governing Council of the European Central Bank lowered the deposit facility rate from -0.4% to -0.5% in the autumn and will continue with the asset purchase program until necessary to strengthen the supportive role of the base interest rates. In December 2019, euro area household loans grew at an annualized rate of 3.7%, the highest in the last ten years, compared with 3.2% for non-financial corporations. Loan growth is supported by favorable loan conditions from banks and growing demand for household loans.

Economic growth in Estonia continued to be strong in 2019 and was more than 4% third year in a row. The forecast for 2020 is 2.2%. In the coming years, economic growth will slow down due to poorer prospects in foreign markets. The global decline in trade since the end of last year and the consequent contraction of supply chains is undermining the industry's growth potential. As the global growth declines, the economy of Estonia's main trading partners is also cooling. By industry, the risks are higher than average in the construction sector, where the market has been saturated for some time with low-productivity manufacturing industries, where entrepreneurs are finding it increasingly difficult to keep up with rapid wage growth. Strong employment growth will begin to moderate. Although unemployment in Estonia was at an all-time low of 4,4% in 2019, both the increase in registered unemployment and the decline in job vacancies indicate that the need for new labor is declining. Corporate companies’ expectations point to a weakening of economic activity.

Business overview 2019

At the end of the 2019, Coop Pank had 63 800 daily banking clients, thus, the bank's client portfolio has increased by 41% compared to the same period last year. The growth of customer base is backed by healthy economic environment, reliability as well as the overall attitude of favouring domestically-owned banks. The biggest influence to the growth of customer base was due to initial public offering of the bank shares and listing on stock exchange. Several product innovations have also had a positive impact to the increase of client numbers. This spring, Coop Pank joined the interbank instant payment system that allows customers to make and receive up to EUR 15 000 interbank money transfers in seconds. At the same time Coop Pank set the annual interest rate paid to private customers' current account balance to 1% and to corporate customers up to 0,25%. In spring, the bank provided the clients with the additional opportunity to pay cash to their bank accounts at the cashier of Coop stores. From July 2019, Coop Pank adds free loan insurance to home loan agreements, providing the home borrower with an additional sense of security. Since November, paying with Coop Pank card enables the best prices in Coop shops.

Coop Pank increased its business volumes by 40% for the third consecutive year. Banking group's loan portfolio reached EUR 460 million in 2019 having increased by EUR 131 million or 40% over the year. From business lines, car leasing and business loans showed the highest growth, increasing their portfolios by 60% and 50%, respectively. Home loan portfolio showed the 29% and consumer finance portfolio 25% annual growth. The market share of the bank's loans was 2.3% at the end of 2019, showing the annual increase by 0.6 pp. The quality of the loan portfolio remained high. In 2019, the provisions made on loan portfolios to account for potential future credit losses were made in sync with the growth of the loan portfolio, i.e. 39% more than in 2018.

As at the end of 2019, Coop Pank's deposits totalled EUR 507 million, having increased by EUR 122 million or 32% over the year. Term deposits, loans received and bonds increased by 34% and demand deposits by 26%. Considering the above, the bank's financing cost increased from 0.8% to 1%. The market share of deposits grew from 2.2% to 2.6%.

In 2019, the profit of Coop Pank reached EUR 5.5 million, having grown by 16% over the year. The annual increase of bank's income was 20%. The net interest income served as the biggest contributor to the increase of income with its 23% annual growth. Fee and commission income increased by 3% over th year. The annual increase of bank's operating expenses was 20%. The biggest impact here was the increase in IT expense, which grew by 53% over the year, as well as by payroll expense with the 21% of increase.

The bank's return on equity was at 10% and the cost-to-income ratio remained at 69%.

The number of full-time employees in the Banking group reached 273 as of the end of December 2019, an increase of 53 employees or 24% over the year. The number of employees in IT unit increased the most.

Continuous growth of business volumes is the core objective of Coop Pank in 2019. To support the company's growth strategy, in spring Coop Pank issued subordinated bonds worth EUR 2 million, with a maturity of 10 years, to LHV Pension Funds. In June, extraordinary general meeting of shareholders decided to increase bank's share capital by EUR 4 million. In December the bank shares were listed on stock exchange and the bank raised EUR 31 million of capital. The first trading day of Coop Pank share was on 10th December of 2019 and the bank has around 11 000 shareholders.

Increase in number of clients

The number of Coop Pank's clients increased by 16 thousand private customers and 1 600 companies in 2019 and the bank had 64 thousand clients by the end of the year. The bank's consumer financing company Coop Finants also has 100 thousand clients.

Increase in profit

Profit of Coop Pank reached EUR 5.5 million in 2019, growing 16% over the year.

Increase in loans

The loan portfolio of Coop Pank increased by 40% in comparison with the previous year. The bank increased the volumes of all of its most important business lines last year – home loans, consumer finance, business loans and leasing.

Increase in deposits

Estonian private individuals and companies brought EUR 68 million worth of deposits to the bank last year. Coop Pank raised EUR 50 million worth of term deposits via the Raisin platform.

The best deposit interest

Since spring 2019, Coop Pank pays 1% interest to demand deposits to private customers, who use daily banking package Rändrahn. The best interest in the market is offered also to business clients demand deposits, which is up to 0,25 percent depending on the amount.

Instant payments

In April 2019, Coop Pank joined the interbank instant payments system, which allows customers to make and receive payments up to 15 000 in seconds.

Coop Kindlustusmaakler

In August 2019. Coop Pank founded subsidiary Coop Kindlustusmaakler AS, which offers clients the most common insurance products such as traffic and casco insurance, home and travel insurance, small and medium business property insurance, construction machinery and other equipment insurance.

Best Prices at Coop stores with Coop Pank card

Since November 2019, Coop, the largest retail chain in Estonia, began offering Coop Pank customers the largest possible discounts available to users of the payment card Säästukaart Pluss. Coop Pank card holders also started earning 10% more Coop bonus points than regular Säästukaart users.

Coop Sula

In May 2019, Coop Pank launched an innovative cash deposit service for private and corporate customers at Coop stores cash registers. Customers of the Bank can now make cash deposits and withdrawals at more than 300 Coop stores across Estonia.

Coop Pank in the main list of the stock exchange

In November 2019 , initial public offering of Coop Pank shares took place, attracting approximately 11 000 investors and EUR 31 million to implement the banks growth strategy. The subscription price of Coop Pank share was 1.15 euros.

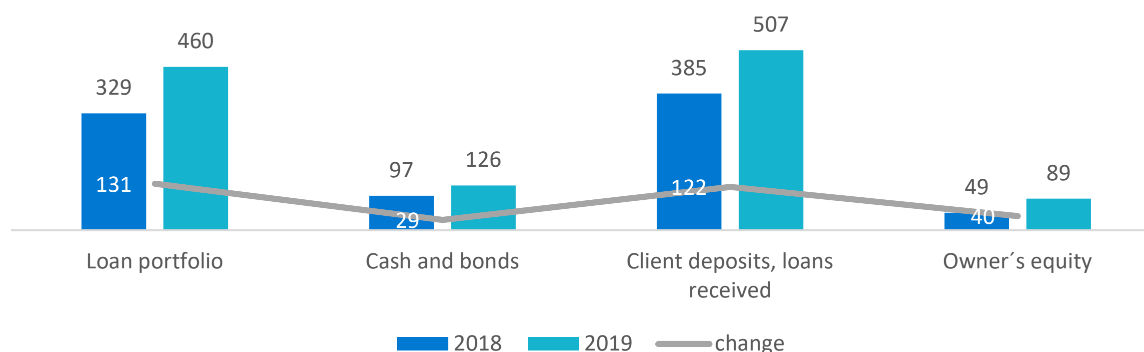
Financial results

In thousands of euros

Income statement	2019	2018	change
Net interest income	20 689	16 779	3 910
Net fee and commission income	2 372	2 302	70
Other income	658	687	-29
Total net operating income	23 719	19 768	3 951
Operating expenses	-16 261	-13 601	-2 660
Impairment losses on loand and advances	-1 931	-1 392	-539
Income tax expense	0	-22	22
Net profit	5 527	4 753	774
incl. profit attributable to the owners of the parent company	5 527	4 753	774

Net operating income growth was 20% and net profit growth 16% compared to previous year. Operating expenses increased 20%, primarily on account of personnel expenses.

Business volumes



In 2019, the Group's net loan portfolio grew by 40% and the volume of client deposits and loans received increased by 32%. In order to raise equity, the shares of the bank were listed on stock exchange at the end of 2019.

Ratios	2019	2018	change
Average shareholders' equity attributable to owners of the parent company, in thousands of euros	56 452	47 169	9 282
Return on equity (ROE) %	9.8	10.1	-0.3
(net profit / 12 month average shareholders' equity)			
Total assets, average, in thousands of euros	528 790	408 828	119 962
Return on assets (ROA), %	1.0	1.2	-0.2
(net profit / total assets, average)			
Cash and interest-bearing assets, average, in thousands of euros	494 936	393 073	101 864
Net interest margin (NIM), %	4.2	4.3	-0.1
(net interest income / interest-bearing assets, average)			
Cost / income ratio, %	68.6	68.8	-0.2
(total operating costs / total net operating income)			

Capitalisation and risk positions

Capital base, in thousands of euros	31.12.2019	31.12.2018
Tier 1 capital		
Paid-in share capital and share premium	72 757	38 374
Statutory reserve capital	2 526	2 288
Accumulated profit/loss	8 314	3 799
The accepted profit of the reporting period	3 944	3 989
Other accumulated comprehensive income	1	-154
Goodwill as intangible asset (-)	-6 757	-6 757
Intangible assets (-)	-3 712	-2 290
Adjustment of value arising from requirements of reliable measurement (-)	-4	-10
Other deductions from Tier 1 Capital (-)	-538	-313
Other adjustments of own funds resulting from transitional provisions	535	598
Total Tier 1 capital	77 066	39 524
Subordinated debt	7 000	5 000
Tier 2 capital	7 000	5 000
Eligible capital for capital adequacy calculation	84 066	44 524
Risk-weighted assets (RWA)		
Central government and central banks using the standardised approach	699	965
Credit institutions, investment companies and local governments using the standardised approach	570	2 915
Companies using the standardised approach	39 450	28 245
Retail receivables using the standardised approach	86 643	62 038
Receivables secured by mortgage on real estate using thesStandardised approach	142 311	100 004
Receivables past due using the standardised approach	5 972	959
Items subject to particularly high risk using the standardised approach	29 231	19 626
Other assets using the standardised approach	11 994	10 330
Total credit risk and counterparty credit risk	316 870	225 082
Operational risk using the Basic Indicator Approach	28 414	21 509
Total risk-weighted assets	345 284	246 591
Capital adequacy (%)	24.35%	18.06%
Tier 1 capital ratio (%)	22.32%	16.03%

Own funds requirements		
Core Tier 1 capital ratio	4.50%	Core Tier 1 capital/total risk exposure
Tier 1 capital ratio	6.00%	Tier 1 capital/total risk exposure
Total capital ratio	8.00%	Total capital/total risk exposure
Systemic risk buffer	1.00%	Of total risk exposure
Capital conservation buffer	2.50%	Of total risk exposure

As at 31.12.2019, the Group complied with all regulatory capital requirements. The systemic risk buffer of the Group as at 31.12.2019 was 3 453 (31.12.2018: 2 466) thousand euros. The capital conservation buffer of the Group as at 31.12.2019 was 8 632 (31.12.2018: 6 165) thousand euros.

The financial leverage ratio of the Group was at 31.12.2019 11.98% (31.12.2018: 8.33%). In order to calculate the financial leverage ratio, the Tier 1 capital indicator is divided by the total exposure (o- and off-balance) indicator.

Group's liquidity position is strong. At 31.12.2019 the Liquidity Coverage Ratio (LCR) was 682% (31.12.2018 was 1 375%), the regulatory minimum requirement is 100%.

According to the Regulation (EU) number 575/2013 of the European Parliament and of the Council, an exposure to a client or group of clients is considered as risky concentration where its value is equal to or exceeds 10% of the credit institution's eligible capital (see the table on previous page about capitalisation). According to the EU Regulation number 575/2013 article 400 paragraph 1 terms the exposures relating to customers as a result of undrawn commitments are exempt from the applicable concentration of exposures limits specified in the table below. In addition, exposures to central governments and central banks which have been assigned a risk weight of 0% are exempt from the applicable concentration of exposures limits.

Concentration of exposure limits applicable to counterparties	Applicable limit	Number of clients		Total of concentration of exposures	
		31.12.2019	31.12.2018	31.12.2019	31.12.2018
Credit institutions and investment firms	eligible capital	0	1	0	7 590
Other customers	25% of eligible capital	0	4	0	20 381

The remaining maturity of all the exposures, broken down by exposure classes are presented in the table below.

31.12.2019	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Balance sheet (standardised approach)						
Central governments and central banks	99 792	0	0	10	0	99 802
Public sector entities	0	0	236	0	0	236
Credit institutions, investment companies and local governments	2 452	0	412	0	0	2 864
Companies	0	0	14 993	24 572	2	39 567
Retail receivables	10 128	1 077	7 849	86 358	17 110	122 522
Receivables secured by mortgage on real estate	187	1 977	11 103	87 921	179 276	280 464
Receivables past due	4 057	2	28	1 390	159	5 636
Items subject to particularly high risk	0	2 198	3 259	10 768	393	16 618
Investments in equity	0	0	0	0	13	13
Other assets	22 947	3 437	6 948	0	314	33 646
Total balance sheet exposures	139 563	8 691	44 828	211 019	197 267	601 368
Off-balance sheet (standardised approach)						
Companies	2 684	0	0	0	0	2 684
Retail receivables	26 979	0	0	0	0	26 979
Receivables secured by mortgage on real estate under standard method	7 076	0	0	0	0	7 076
Receivables past due	0	0	0	0	0	0
Items subject to particularly high risk	5 836	0	0	0	0	5 836
Total off-balance sheet exposures	42 575	0	0	0	0	42 575
Total exposure	182 138	8 691	44 828	211 019	197 267	643 943

31.12.2018	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Balance sheet (standardised approach)						
Central governments and central banks	52 063	325	0	1 929	0	54 317
Public sector entities	0	0	0	12	0	12
Credit institutions, investment companies and local governments	13 746	0	500	0	0	14 246
Companies	395	515	10 649	16 042	283	27 884
Retail receivables	9 723	382	6 293	55 063	15 667	87 128
Receivables secured by mortgage on real estate	508	1 841	6 233	61 833	139 288	209 703
Receivables past due	545	3	9	85	213	855
Items subject to particularly high risk	0	1 046	3 285	6 789	405	11 525
Investments in equity	0	0	0	0	13	13
Other assets	32047	0	98	0	0	32 145
Total balance sheet exposures	109 027	4 112	27 067	141 753	155 869	437 828
Off-balance sheet (standardised approach)						
Companies	2 310	0	0	0	0	2 310
Retail receivables	21 555	0	0	0	0	21 555
Receivables secured by mortgage on real estate under standard method	9 553	0	0	0	0	9 553
Receivables past due	135	0	0	0	0	135
Items subject to particularly high risk	3 550	0	0	0	0	3 550
Total off-balance sheet exposures	37 103	0	0	0	0	37 103
Total exposure	146 130	4 112	27 067	141 753	155 869	474 931

The assets of the Group are predominantly unencumbered with the exception of deposits pledged in the total amount of 714 thousand euros for securing various transactions. Assets are deemed encumbered if such assets are used for securing any on-balance sheet or off-balance sheet transaction or improvement of creditworthiness and such assets are pledged and cannot be withdrawn from the pledge without prior approval by the pledgee. Deposited or pledged assets that are not in use and can be readily reclaimed are not deemed encumbered assets.

The following table gives an overview about encumbered and unencumbered assets:

31.12.2019	Carrying value of encum-bered assets	Fair value of encumbered assets	Carrying value of unencum-bered assets	Fair value of unencumbered assets	Total carrying value
Due from central banks and credit institutions	400	400	100 364	100 364	100 764
Government bonds	0	0	1 398	1 398	1 398
Bonds of non-financial companies	0	0	2 663	2 663	2 663
Loans and advances to customers	0	0	460 460	461 453	460 460
Other assets	314	314	45 703	45 703	46 017
Assets	714	714	610 588	611 581	611 302

31.12.2018	Carrying value of encum-bered assets	Fair value of encumbered assets	Carrying value of unencum-bered assets	Fair value of unencumbered assets	Total carrying value
Due from central banks and credit institutions	500	500	65 809	65 809	66 309
Government bonds	0	0	1 929	1 929	1 929
Bonds of non-financial companies	0	0	7 201	7 201	7 201
Loans and advances to customers	0	0	328 723	326 199	328 723
Other assets	178	178	41 938	41 938	42 116
Assets	678	678	445 600	443 076	446 278

Group management system

Coop Pank AS Group acts based on the principle of consolidation, which entails the establishment of collective and coordinated objectives, the sharing of common core values and functioningof competent governing bodies to manage risks across the Group.

The governing bodies of Coop Pank AS are the supervisory board and the management board. The Supervisory Board is appointed by the General Meeting of Shareholders for a three-year term. Shareholders who hold shares at least 1/10 of the share capital are able to nominate candidates for election of members of the Supervisory Board in the form of a draft resolution of the General Meeting of Shareholders. The Management Board is appointed by the Supervisory Board for a three-year term. When appointing members of the Management Board, the Supervisory Board ensures that the Management Board that is formed would be sufficiently diverse in composition through a profile of knowledge, skills, experience and education in order to make sure that the Management Board has the capability to effectively manage all of the bank's operating segments. The Supervisory Board also aims to take into consideration gender diversity when deciding on the composition of the Management Board.

Members of the governing body are appointed based upon requirements applicable to members of governing bodies pursuant to the provisions of the Credit Institutions Act: any appointed individual must have the necessary knowledge, skills, experience, education, professional qualifications and impeccable reputation in business to be able to manage a credit institution. A person whose earlier activities have caused a bankruptcy or compulsory liquidation or revocation of the activity license of a company, or from whom the right to engage in economic activity has been taken away pursuant to law, or whose earlier activities as a manager of a company have shown that he or she is not capable of organizing the management of a company such that the interests of the shareholders, members, creditors and clients of the company are adequately protected, or whose earlier activities have shown that he or she is not suitable to manage a company for other good reasons cannot be elected or appointed manager of a credit institution. In order to ensure compliance with the aforementioned requirements, the bank has adopted an internal policy for the evaluation of the suitability of a member of its governing body: suitability is evaluated before the individual is appointed member of a governing body and, if necessary, during their term of office as members. The bank has established a policy for the regular training for members of the management board in order to ensure sustained competency of its management board members.

Management Board

MARGUS RINK

Chairman of the Management Board since February 2017

Previously Member of the Management Board of Eesti Energia and Head of Retail Banking in Swedbank

HANS PAJOMA

Member of the Management Board since April 2017

Previously Head of DNB Bank Norway Commercial Banking and CEO of DNB Bank Estonia

KERLI LÕHMUS

Member of the Management Board since February 2017

Previously CFO of LHV Bank and LHV Varahaldus

HEIKKO MÄE

Member of the Management Board since February 2020.

Previously CEO of Magnum Veterinary and Head of Energy Trading in Eesti Energia

Supervisory Board

JAANUS VIHAND

Chairman of the Supervisory Board, member of audit committee and remuneration committee.

Chairman of Management Board of Apollo Group OÜ.

PRIIT PÕLDOJA

Member of the Supervisory Board, member of audit committee and remuneration committee.

AS Inbank founder and member of Supervisory Board.

ROMAN PROVOTOROV

Member of the Supervisory Board.

Member of Management Board of Antsla Tarbijate Ühistu.

JAAN MARJUNDI

Member of the Supervisory Board, member of remuneration committee.

Chairman of Management Board of Harju Tarbijate Ühistu.

MÄRT MEERITS

Member of the Supervisory Board, member of audit committee.

Member of Management Board of OÜ Placebo ja OÜ Terviston.

The structure of the Group is designed and approved by the management board of the bank in accordance with the provisions of legislation, the articles of association and strategies of the bank and its subsidiaries, as well as by adhering to the instructions provided by the supervisory board and the development priorities of the bank. The Group's organizational structure is based on a functional structure. Responsibility for the activities of the bank and its subsidiaries is divided between the members of the bank's management board according to field of activity and function, thereby establishing areas of responsibility. The allocation of areas of responsibility among members of the management board is based on the principle of separation of functions, which ensures the separation of controlling entities from controlled entities.

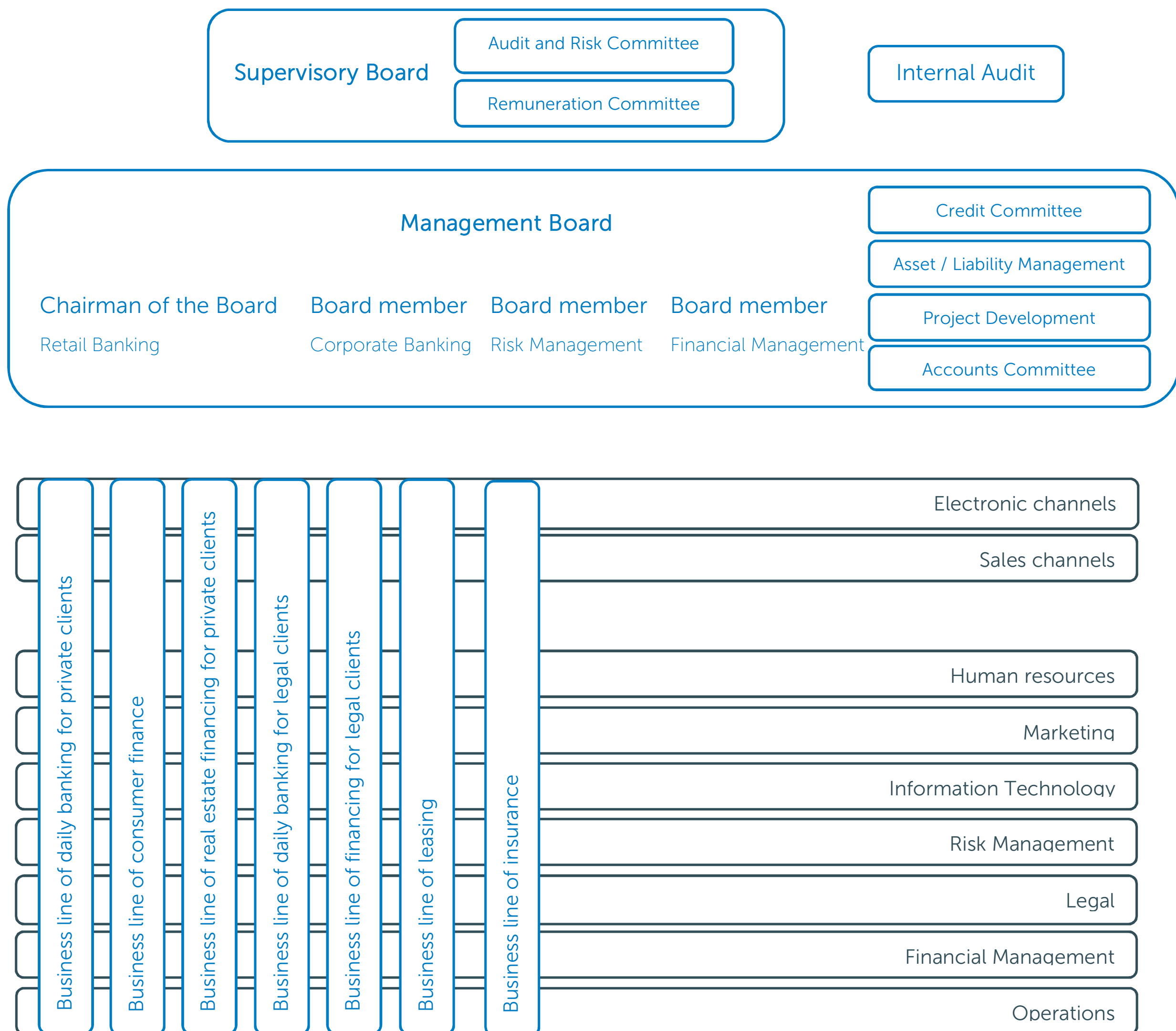
The strategy, purposes and principles of the risk management of the Group is approved by the Supervisory Board of the bank. The Management Board of the bank and the members of Supervisory Boards of the entities belonging to the Group individually approve the plan of action for every company or business line. The core values stated in the Group's strategy stand for the whole Group. The Group manages risks across the entire Group and the following committees have been established:

- Audit/Risk Committee is comprised of representatives of major shareholders and it serves as an advisory body in respect of accounting, auditing, risk management, legal compliance, internal control and audit, general supervision and budgeting.
- Remuneration Committee is comprised of representatives of major shareholders and its role is to evaluate the implementation of remuneration policy and their adherence to the operational objectives of the bank and to evaluate the effect of decisions related to remuneration to compliance with requirements set forth concerning the Group's risk management, own funds and liquidity.
- Credit Committee are competent bodies for making credit decisions and their role is to ensure through their decision-making the adherence to common credit policy across the Group.
- Asset/Liability Management Committee is a competent body on a group-wide basis for the management of liquidity risk, interest rate risk of the bank portfolio and securities portfolio, designing of the structure of assets and liabilities, management of profitability and management of capital.

- The task of Account Establishment Committee is to guide through its decisions the establishing and discontinuing when necessary the relationships with high-risk clients.
- The main task of Investment Projects Committee is to lead different information system developments in order to attain the strategic goals of the Group

A group-wide internal control system has been implemented by the Group encompassing all operational and management levels for the purposes of ensuring the effectiveness of the Group's operations, reliability of financial reporting, compliance of operations with applicable laws and other legislation, internal regulations approved by governing bodies and the adoption of decisions on the basis of reliable and relevant information. The control is based on a 3-level control system. The first level constitutes internal control that takes place internally within each division. The second level is made up of risk management and compliance function that operate as autonomous and independent control units. The third level comprises the internal audit unit that exercises control over the entire operations of the Group.

Group structure



At the end of 2019, the new business line on insurance started its activity.

Remuneration policy

Coop Pank Group applies a single remuneration policy that has been approved by the Supervisory Board of the bank and the effectiveness, adherence to objectives and implementation of the policy is supervised by the Remuneration Committee. In 2019, two Remuneration Committee meetings took place. The remuneration policy applies equally to all employees of the Group.

The compensation structure applicable in the Coop Pank Group is comprised of two components:

- basic salary, which is fixed pay agreed between employee and employer within a contract;
- variable pay, which is an additional pay based on the employer's resolution (sales bonus, performance pay, stock option).

Sales bonuses are paid to employees based on achieving monthly or quarterly goals. Performance pay is paid out the following period to those employees, whose contribution led to the results achieved while adhering to the Group's objectives and values. Performance pay supports efficient risk management and does not encourage taking excessive risks, the amount of pay is determined by the extent of reaching activity goals. The basic salary and performance pay are reasonably balanced.

The ratio between performance pay and basic salary of the senior management and senior staff responsible for material business units and for management of specific risk categories in 2019 was:

- senior management – 23%
- staff managing control functions – 13%

AS at 31.12.2019, total of 1 898 010 options were granted to the members of the Management Board and key employees with a maturity date of three years starting from the moment of the issue. In November, 2019 new three-year share option programm was confirmed by the shareholders, which allows to issue options to employees up to 1% of the total number of shares of the bank. Next share options issue may take place in 2020 based on Supervisory Board decision. The purpose of the share options program is to align long-term interests and goals of Management Board members and employees treated as such with long-term interests of the bank shareholders. The common interests are expressed in the professional and balanced management of the Group, which ensures the sustainable development and long-term growth of the Group in accordance with the set goals and strategy. The options are issued based both on the results of the Group and results of the person entitled to participate in the option program in the relevant year.

The total amount of bonuses are decided by the Supervisory Board, which also determines the specific amounts of bonuses for members of the Management Board and the internal audit unit. Bonuses to other employees are decided by the Management Board. Optsioonide väljastamise otsustab nõukogu töötasukomitee ettepanekul The issue of options shall be decided by the Supervisory Board on a proposal from the Remuneration Committee.

In addition to monetary incentives, the employees also have many non-monetary benefits such as flexible working hours, possibility to work from home, different common activities and benefits for sporting. The Group's employees work under employment contracts, members of the management based on authorization agreements.

For the bank, employee satisfaction and development is important. To ensure this, various development training and joint events will be organized, such as Gala of the beginning of the year and joint summer days with Coop Eesti. Throughout the year, annual talks and semi-annual interviews are conducted with all staff to ensure that employees move in the right direction with motivation and productiveness.

Dividend policy

At the shareholders' meeting on 08.11.2019 the dividend policy was approved, according to which the consolidation bank aims to pay a dividend of 25% of the annual earnings before taxes (incl. income tax), attributable to shareholders of the Group. The first dividend payment will be made in 2022 from the profit earned in 2021. Preconditions for dividend payment are:

- compliance with external and internal capital and liquidity requirements;
- the level of capital after dividend payments shall be sustainable and sufficient to ensure business growth and investment needs.

Shareholders with over 5% holding

As at 31.12.2019 shareholders with holding over 5% are:

Coop Investeeringud OÜ	25,31%
Andres Sonn	9,34%
CM Capital OÜ	6,89%

In addition, the member cooperatives of Coop Eesti Keskühistu hold the total of 18.29% of the total amount of shares, however, separately none of them holds over 5%.

Corporate Governance Report

Coop Pank AS implements the Corporate Governance Recommendations (hereinafter CGR) approved by the Nasdaq Tallinn Stock Exchange and the Financial Supervision Authority since the listing of Coop Pank AS shares on the Tallinn Stock Exchange main list on 10 December of 2019. The report provides an overview of Coop Pank AS management and compliance with CGR guidelines. Coop Pank AS complies with the recommendations of the Good Corporate Governance, unless otherwise stated in this report.

1. General Meeting

Coop Pank is a public limited company whose management bodies are the General Meeting of Shareholders, the Supervisory Board and the Management Board. The General Meeting is the highest directing body of the bank, where the shareholders exercise their rights. The competence of the General Meeting is provided by law and the Articles of Association of the bank. For example, the General Meeting is competent to amend the Articles of Association, increase and decrease the share capital, decide on the issue of convertible bonds, elect and extend the term, as well as decide on the early removal of the Supervisory Board members, approve the annual report and distribute the profit, approve the share option programme, appoint and dismiss the auditor.

Every shareholder is entitled to participate in the General Meeting, to speak at the General Meeting on the topics in the agenda and to ask reasonable questions and make proposals. In 2019, no shareholders' questions on agenda topics were raised before the General Meetings. A shareholder may attend the General Meeting and vote at the meeting in person or through a duly authorized representative. The General Meetings are held on business days and have been held at the bank’s headquarters at Narva mnt 4, Tallinn. Previously, the Bank has not implemented the recommendation referred to in clause 1.1.1 of the CGR, to publish the questions, submitted by the shareholders, on its website. From the listing of the bank's shares on the Tallinn Stock Exchange, the Bank will comply with this requirement.

The General Meeting is called by the Management Board. The Annual General Meeting, which approves the annual report, is held at least once a year. The Management Board shall call an Annual General Meeting not later than four months after the end of the financial year. The Management Board shall give the notice of both the annual and special General Meetings at least three weeks in advance. In 2019, the bank followed the routine provided in the Commercial Code and sent the shareholders' invitations to the General Meeting by registered mail at the address, entered in the share register. The Bank has not yet implemented the requirement set out in clause 1.2.1 of the CGR concerning the publication of a notice of calling the General Meeting on the bank's website and in the daily national newspaper, as the Bank did not comply with the CGC principles prior to becoming a listed company. From the listing of the bank's shares on the Tallinn Stock Exchange, the Bank will comply with this requirement.

The agenda of the General Meeting, the proposals of the Management Board and the Supervisory Board, the draft resolutions and other relevant materials shall be made available to the shareholders before the General Meeting. In 2019, from the announcement of the General Meetings until the day of the General Meeting, the shareholders had access to the materials and draft resolutions of the General Meetings and other by law required documents submitted to the General Meetings at the bank’s headquarters on workdays from 09:00-17:00 at Narva mnt 4, Tallinn. The Bank has not yet implemented the requirement set out in clause 1.2.3 of the CGR, concerning the publication of materials on the bank's website; as well as the requirements set forth in clauses 1.2.2 and 1.2.4 regarding the proposals of the Supervisory Board and the shareholders on the topics in the

agenda and the publication of these proposals on the bank's website. The Bank will comply with these requirements from 2020.

Following and participation in the General Meeting via means of communication has not been made neither planned to make available (CGC clause 1.3.3), since there is no need, demand nor suitable solution for this.

In 2019, one annual and two special General Meetings were held. The annual General Meeting of Shareholders that took place on 29 Aprtil of 2019 approved the Annual Report 2018 and distributed the profit for the year 2018. In addition, it was decided not to pay dividend on the expense of the profit of the financial year 2019 nor the accumulated profits of previous financial years. The General Meeting was held in Estonian. The meeting was chaired by Jaanus Vihand, Chairman of the Supervisory Board, and Mariann Suik, Head of the Legal Department of the bank took minutes of the meeting. All Management Board members of the bank attended the General Meeting. The Bank has not previously implemented the recommendation in clause 1.3.1 of the CGR, providing that the chairman of the Supervisory Board shall not be elected as chairman of the General Meeting. As the chairman of the Supervisory Board also represents the strategic shareholder and, arising from this role, is well informed of the activities of the bank, it has not been considered necessary to elect another person for chairing the General Meeting in the context of the previous shareholder and organizational structure. The chairman of the General Meeting was always elected unanimously. The auditor did not attend the meetings as the issues requiring the auditor's participation were not resolved at the meetings. In the future, the Bank shall adopt the recommendations in clause 1.3.1 of the CGR.

2. Management Board

2.1. Responsibilities of the Management Board

The Management Board is the governing body of Coop Pank, that represents and manages the bank on daily basis. According to the Articles of Association, every member of the Management Board may represent the bank in all legal acts. The members of the Board are elected and removed by the Council. The consent of the Board member is required for the election. According to the Articles of Association of the bank, the Management Board comprises 3-7 members. The term of office of a Management Board member is three years. Each member of the Management Board has his or her area of responsibility, which is determined by the agreement of the Management Board member. For carrying out the duties of a Management Board member, the chairman of the Supervisory Board signs an agreement with a member of the Management Board. Bank’s Management Board member shall not simultaneously participate in the work of the Management or Supervisory Board of other companies. Different from the above, the members of the Management Board participate in the work of the management bodies of the companies of the consolidation group.

In accordance with the agreements concluded with the Management Board members, the extension of the term of office of a Management Board member shall be decided 3 months before the expiry of the term of office. The Supervisory Board shall appoint the chairman of the Management Board. The chairman of the Management Board shall organize the work of the Management Board. The Supervisory Board may dismiss a member of the Management Board regardless of the reason. A member of the Management Board may resign from the Management Board regardless of the reason with prior notice to the Supervisory Board. The rights and obligations arising from the agreement, concluded with the member of the Management Board, shall expire in accordance with the agreement.

Persons with sufficient knowledge and experience to participate in the work of the bank's Management Board shall be elected as members of the Management Board. For the selection and evaluation of the bank's

Management Board and Supervisory Board members, the bank has adopted "Suitability assessment policy", which is implemented in conjunction with applicable legislation (the Credit Institutions Act in particular) as well as with the recommendations manual and other relevant guidance documents issued by the Financial Supervision Authority and / or other supervisory agencies.

As at 31.12.2019, the Management Board of the bank comprised four members: Margus Rink (chairman), Hans Pajoma, Kerli Lõhmus and Janek Uiboupin. The term of office of Janek Uiboupin expired on 12.02.2020 and from 13.02.2020 Heikko Mäe is the member of the Management Board.

The Management Board carries out its day-to-day management decisions independently, considering the best interests of the bank and its shareholders, while excluding any personal interests. The members of the Management Board are responsible for the day-to-day management of the bank and for developing and implementing the bank's strategy. The Management Board ensures proper functioning of risk management and internal control considering the bank's area of activity.

2.2. Remuneration principles of managers

The purpose of the bank's remuneration policy is to provide fair, motivating, transparent and legally compliant remuneration. The Supervisory Board has the right to decide on the remuneration of the members of the Management Board. The Remuneration Committee of the bank annually reviews the remuneration principles of the Management Board. When determining the remuneration of a member of the Management Board, the Remuneration Committee shall, in particular, take into account the responsibilities of the individual member of the Management Board, his or her performance, the overall performance of the Management Board, as well as the financial position of the bank, the current state and future direction of the business in comparison with the corresponding indicators of companies of the same economic sector.

The remuneration of a Management Board member must be such as to motivate the person to act in the best interests of the bank. The basic wage of the Management Board members is agreed in the Management Board member agreement. The remuneration principles of the Management Board members and /or employees, exercising internal control and risk management functions, must ensure their independence and objectivity in performing their risk management / internal control tasks. The remuneration of these employees must not depend on the results of the departments controlled, the set objectives must be described at the individual employee level.

The Bank applies an annual performance pay, commensurate with achieving the objectives, to all employees, plus a long-term option program for key employees.

Gross remuneration paid to the Management Board members in 2019 in euros:

	Basic salary 2019	Performance pay in 2019
Margus Rink	108 000	31 500
Hans Pajoma	108 000	31 500
Janek Uiboupin	67 200	19 600
Kerli Lõhmus	67 200	19 600

In the event of an extraordinary termination of the Management Board member's agreement by the Bank, the Management Board member shall be paid severance pay in the amount of 6 months' remuneration. The severance pay is not payable if the termination is due to significant culpable failure to fulfil official duties or to

any other act that seriously damages the bank's reputation. If the term of office of a member of the Management Board is not extended, the Management Board member is entitled to a severance pay in the amount of 3 months' remuneration.

The Bank has not followed the recommendation referred to in clause 2.2.7 of the CGR, to present the essential aspects of the Management Board remuneration and changes in it to the General Meeting but will comply with the recommendation in 2020.

Shares and share options owned by the Management Board members and their associated persons as at 31.12.2019:

	Shares owned by the member	Shares owned by associated persons	Holding	Share options	Share purchase price paid at subscription	
Margus Rink	12 487		0,01%	583 850	0,7305	Sept.2020
Hans Pajoma	12 487		0,01%	583 850	0,7305	Sept.2020
Kerli Lõhmus		27 000	0,03%	233 540	0,7660	May 2021
Janek Uiboupin	20 000		0,02%	116 770	0,7660	May 2021

2.3. Conflict of interests

The Bank has established a Banking group-wide "Policy of Management of the Conflict of Interest", under which members of the Banking group's corporate bodies, heads of departments and client managers are required to submit and annually update their Declaration of Financial Interests and Credibility. Also, a new declaration must be submitted immediately after a change of significant circumstances which are, or are likely to give rise to, a conflict of interest which constitute or may give rise to a conflict of interest.

Transactions between the bank and the members of the Management Board, persons close or associated to them shall be subject to the prior approval of the Supervisory Board. In 2019, no such transactions took place.

Management Board members are not members of the Management Board or Supervisory Board of other issuers. The Management Board members of Coop Pank AS are also the Supervisory Board members of the bank's subsidiaries; the Management Board member, fulfilling the duties of risk manager, is also a Management Board member of a real estate management company established in Latvia which is part of the Banking group.

3. Supervisory Board

The Supervisory Board is the bank's governing body, which plans and organises the Bank's management and supervises the activities of the Management Board. The Board determines and periodically reviews the bank's strategy, general business plan, principles of risk management and annual budget. The Supervisory Board comprises five to seven members. The term of office of the Supervisory Board members is three years. The members of the Supervisory Board shall elect from among themselves the chairman of the Supervisory Board who shall organize the activities of the Supervisory Board.

The Supervisory Board regularly evaluates the activities of the Management Board by implementing the bank's strategy, as well as evaluates the bank's financial position, risk management systems and lawfulness of the activities of Management Board.

Persons with sufficient knowledge and experience to participate in the work of the bank's Supervisory Board shall be elected as members of the Supervisory Board. For the selection and evaluation of the bank's Management Board and Supervisory Board members, the bank has adopted "Suitability assessment policy", which is implemented in conjunction with applicable legislation (the Credit Institutions Act in particular) as well as with the recommendations manual and other relevant guidance documents issued by the Financial Supervision Authority and / or other supervisory agencies.

As at 31.12.2019, the Management Board members of the bank were Jaanus Vihand (chairman), Priit Põldoja (deputy chairman), Jaan Marjundi, Roman Provotorov and Märt Meerits. The General Meeting of Shareholders has decided to set the gross monthly remuneration of the members of the Supervisory Board at EUR 1000, the chairman and deputy chairman at EUR 2000. There is no severance pay for a Members of the Supervisory Board receive no severance pay.

Gross remuneration paid to the Supervisory Board members in 2019 in euros:

	Basic wage in 2019
Jaanus Vihand	24 000
Priit Põldoja	24 000
Jaan Marjundi	12 000
Roman Provotorov	12 000
Märt Meerits	12 000

As set out in clause 2.3 of this report, the Supervisory Board members shall also submit a declaration of their financial interests and reliability.

No significant transactions took place between the bank and the members of the Supervisory Board, and persons close or associated to them in 2019.

In 2019, 12 Supervisory Board meetings were held, and 1 Supervisory Board resolution was adopted without convening a meeting. All the Supervisory Board members attended all meetings and participated in all votes.

The members of the Supervisory Board of the bank are not independent for the purposes of the Corporate Governance Recommendations (clause 3.2.2 of CGR). The Bank has been in a rapid growth phase where the representatives of the strategic shareholders and other major shareholders, who have actively contributed to the development and shaping the strategy of the bank, were favoured as members of the Supervisory Board.

The Supervisory Board has formed two committees: the Audit Committee and the Remuneration Committee. The Committees act under the supervision of the Supervisory Board as advisory bodies to the Board.

3.1. Audit Committee

The Audit Committee is an advisory body to the Supervisory Board in the areas of accounting, auditing, risk management, internal control and audit, supervision and budgeting, and the legality of the activities. The activities of the Audit Committee are primarily based on the Act on Auditors and the rules of procedure of the Audit Committee, approved by the Supervisory Board.

The Audit Committee is responsible, inter alia, for supervision of the audit process of the annual or consolidated accounts and the independence of the sworn auditor. The Audit Committee also performs the functions of the Risk Committee and advises the Supervisory Board and the Management Board on risk management principles

and supervises risk management. The Audit Committee makes proposals to the Supervisory Board for the appointment or removal of the external and internal auditor, as well as for changes in risk management principles, elimination of problems in the organization and compliance with legal acts. At least once a year, the external auditor shall report to the Audit Committee on the findings of the audit.

The Audit Committee shall comprise at least two members, elected by the Supervisory Board. The members of the Audit Committee are Paavo Truu (chairman), Priit Põldoja, Jaanus Vihand and Märt Meerits. Members of the Audit Committee shall not be remunerated for their services in the Audit Committee.

3.2. Remuneration Committee

The responsibility of the Remuneration Committee is to evaluate the implementation of the Remuneration Principles approved by the bank's Supervisory Board and their consistency with the Bank's business objectives; the impact of the remuneration decisions on meeting the requirements set to bank's risk management, own funds and liquidity. The Remuneration Committee also supervises the remuneration of the members of the Management Board and employees subject to the increased requirements.

The remuneration committee comprises at least two members. The Remuneration Committee members are Priit Põldoja (chairman), Jaanus Vihand and Jaan Marjundi. The members of the remuneration committee are not being remunerated.

4. Cooperation between the Management Board and the Supervisory Board

The Management Board and the Supervisory Board cooperate closely to protect the best interests of the bank. The Management Board and the Supervisory Board jointly develop the bank's strategy. The Management Board is invited to attend monthly meetings of the Supervisory Board. The Management Board shall regularly inform the Supervisory Board of any material information regarding the bank's planning and conduct of business, operational risks and management of these risks.

5. Implementation of diversity policy

In accordance with clause 4 of section 24'2 of the Accounting Act, a large undertaking whose securities granting voting rights have been admitted for trading on a regulated securities market of Estonia or another Contracting State shall describe in the corporate governance report the diversity policies carried out in the company's management board and senior management and the results of the implementation thereof during the accounting year. If no diversity policies have been implemented during the accounting year, the reasons for this should be explained in the corporate governance report.

In 2019, the bank did not implement the diversity policy, as it always considers the best interests of the Banking group in the selection of both executives and employees, considering the candidate's education, skills and previous work experience. At the same time, the Banking group follows the principle of non-discrimination of candidates on the grounds of gender or other status.

6. Disclosure of information

The bank shall treat all shareholders equally and shall notify all shareholders equally of material circumstances and from 10.12.2019 takes into account the rules established for listed companies by providing information.

On the Investor section of bank's website all documents and information will be made available to the shareholders in accordance with the Corporate Governance Recommendations. On its website, the bank shall publish a financial calendar which includes the dates of publication of the Annual Report and Interim Reports. The published information shall also be made available in English.

7. Financial reporting and audit

Once every year the bank publishes the Annual Report. The Annual Report shall be audited, accepted by the Supervisory Board and approved by the General Meeting.

Members of the Supervisory Board do not sign the Annual Report together with the Management Board members (clause 6.1.1 of CGR). The position of the supervisory board on Annual Report is included in the Supervisory Board's written report, approved with the resolution of the Supervisory Board. The bank submits the Annual Report, signed by the Management Board, to the General Meeting of Shareholders (thus the Bank does not comply with the requirement to submit the report signed by the members of the Management and Supervisory Board to the shareholders, clause 6.1.1 of CGR), however, a proposal for approval of the Annual Report, prepared by the Supervisory Board, shall be submitted to the General Meeting.

The auditor shall be appointed by the General Meeting of Shareholders, who shall also determine the auditor's remuneration arrangements. The auditor is appointed to perform a single audit or for a period specified by the General Meeting.

In 2017, the Management Board organised a competition for electing an auditor. The bank held meetings with four major internationally recognized companies and asked for submitting their offers. As a result of the competition, the offer AS PricewaterhouseCoopers was selected and the annual General Meeting of Shareholders, held on April 26, 2017, appointed the company as the auditor of the bank, and a three-year agreement for the auditing of the financial years 2017-2019 was concluded with them.

In 2019, the auditor has provided contracted services to companies of the consolidation group, including audits of Annual Reports of Group companies and quarterly reviews and other assurance services subject to obligations under the Credit Institutions Act and the Securities Market Act. Also, the auditor has provided other services permitted pursuant to the Republic of Estonia Auditors Activities Act. In addition, the auditor audited the reports required for the prospectus on public offering and listing of the shares.

In agreement with the external auditor, the bank shall not disclose contractual fees (clause 6.1.1 of CGR) paid or payable to the auditor, as this is confidential information between the parties, the disclosure of which is not indispensable for assessing the bank's activities.

Consolidated Financial Statements

Consolidated Statement of Profit or Loss and Other Comprehensive Income

in thousands of euros	Note	2019	2018
Interest income calculated using the effective interest method		23 298	17 561
Other similar income		2 280	2 294
Interest and similar expense		-4 889	-3 076
Net interest income	5	20 689	16 779
Fee and commission income		3 725	3 669
Fee and commission expense		-1 353	-1 367
Net fee and commission income	6	2 372	2 302
Sale of assets		140	648
Cost of assets sold		-159	-662
Rental income from investment properties		32	77
Direct property operating expenses		-79	-127
Change in fair value of investment property	14	-20	-187
Net gains/losses from non-financial asset realization		0	-6
Net gains/losses from financial assets measured at fair value		7	-12
Handling of overdue receivables		536	599
Other income		201	357
Net other income		658	687
Payroll expenses	7	-9 880	-8 177
Operating expenses	8	-4 577	-4 628
Depreciation	15	-1 804	-796
Total operating expenses		-16 261	-13 601
Net profit before impairment losses on loans and advances		7 458	6 167
Impairment losses on loans and advances	12	-1 931	-1 392
Net profit before income tax		5 527	4 775
Income tax expenses		0	-22
Net profit for the financial year	4	5 527	4 753
Other comprehensive income / loss			
Items that may be reclassified subsequently to profit or loss:			
Financial assets at fair value through other comprehensive income		155	-239
Other comprehensive income / loss		155	-239
Comprehensive income for the financial year		5 682	4 514
Net profit attributable to:			
The owners of the parent company		5 527	4 753
Net profit for the financial year		5 527	4 753
Comprehensive income attributable to:			
The owners of the parent company		5 682	4 514
Comprehensive income for the financial year		5 682	4 514
Basic earnings per share (in euros)	24	0,09	0,08
Diluted earnings per share (in euros)	24	0,09	0,08

Notes to the financial statements on pages 33 to 97 are an integral part of the consolidated financial statements.

pwc Initialled for identification purposes only
Initials I.S. Date 16.03.2020

Consolidated Statement of Financial Position

in thousands of euros	Note	31.12.2019	31.12.2018
Assets			
Cash and cash equivalents	9	122 295	88 030
Debt securities at fair value through other comprehensive income	10	4 061	9 130
Equity instruments at fair value through	10	13	13
Loans and advances to customers	11,12	460 460	328 723
Other financial assets	13	1 263	333
Assets held for sale	13	6 756	6 697
Goodwill	3	6 757	6 757
Right-of-use assets	15	1 722	0
Tangible assets	15	2 504	2 465
Intangible assets	15	3 712	2 289
Investment property	13,14	594	904
Other assets	13	1 165	937
Total assets		611 302	446 278
Liabilities			
Customer deposits and loans received	16	506 531	385 118
Lease liabilities	17	1 725	0
Other financial liabilities	17	3 572	4 126
Other liabilities	17	3 059	2 845
Subordinated debt	18	7 064	5 026
Total liabilities		521 951	397 115
Shareholders' equity	19		
Share capital		60 960	38 199
Share premium		11 797	175
Statutory reserve capital		2 526	2 288
Retained earnings		13 841	8 552
Other reserves		227	-51
Shareholders' equity attributable to owners of the parent company		89 351	49 163
Total shareholder's equity		89 351	49 163
Total liabilities and shareholders' equity		611 302	446 278

Notes to the financial statements on pages 33 to 97 are an integral part of the consolidated financial statements.

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Consolidated Statement of Cash Flows

in thousands of euros	Note	2019	2018
Cash flows from operating activities			
Interest received		25 171	19 790
Interest paid		-4 086	-2 239
Fees and commissions received		3 725	3 669
Fees and commissions paid		-1 353	-1 367
Other received income		671	882
Salaries paid		-9 743	-8 042
Other operating expenses paid		-4 577	-4 665
Total cash flows from operating activities before changes in operating assets and liabilities		9 808	8 028
Change in operating assets:			
Loans and advances to customers		-133 184	-92 315
Change of mandatory reserve in central bank	9	-1 151	-135
Other assets		-1 118	1 731
Change in operating liabilities:			
Change in customer deposits and loans received		120 648	68 311
Other liabilities		-639	1 543
Net cash flows from operating activities		-5 636	-12 837
Cash flows from investing activities			
Acquisition of property, plant and equipment		-2 746	-2 476
Sale of property, plant and equipment and investment properties		212	2 232
Acquisition of debt instruments		0	-2 632
Sale and redemption of debt instruments		4 999	4 738
Total cash flows from investing activities		2 465	1 862
Cash flows from financing activities			
Contribution to share capital	19	34 383	0
Issue of subordinated bonds	18	2 000	0
Total cash flows from financing activities		36 383	0
Effect on exchange rate changes on cash and cash equivalents		-7	4
Change in cash and cash equivalents		33 205	-10 971
Cash and cash equivalents at beginning of the period		84 797	95 768
Cash and cash equivalents at the end of the period		118 002	84 797
Cash and cash equivalents balance is comprised of:		118 002	84 797
Cash on hand		21 531	21 721
Demand deposits in central banks	9	94 019	49 321
Demand and short-term deposits in credit institutions	9	2 452	13 755

Notes to the financial statements on pages 33 to 97 are an integral part of the consolidated financial statements.

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Consolidated Statement of Changes in Equity

in thousands of euros	Share capital	Share premium	Statutory reserve capital	Other reserves	Revaluation reserve	Retained earnings	Total attributable to share-holders of parent	Total equity
Balance as at 31.12.2017	38 199	175	2 070	0	0	4 732	45 176	45 176
Change on initial application of IFRS9:								
Loan portfolio, loan commitments	0	0	0	0	0	-630	-630	-630
Debt securities portfolio	0	0	0	0	105	-85	20	20
Balance as at 01.01.2018	38 199	175	2 070	0	105	4 017	44 566	44 566
Change in reserves	0	0	218	0	0	-218	0	0
Share options *	0	0	0	103	0	0	103	103
Net profit	0	0	0	0	0	4 753	4 753	4 753
Other comprehensive income	0	0	0	0	-259	0	-259	-259
Total comprehensive income	0	0	0	0	-259	4 753	4 494	4 494
Balance as at 31.12.2018	38 199	175	2 288	103	-154	8 552	49 163	49 163
Increase of share capital on account of share premium	175	-175	0	0	0	0	0	0
Paid in share capital	22 586	11 797	0	0	0	0	34 383	34 383
Changes in reserves	0	0	238	0	0	-238	0	0
Share options *	0	0	0	123	0	0	123	123
Net profit	0	0	0	0	0	5 527	5 527	5 527
Other comprehensive income	0	0	0	0	155	0	155	155
Total comprehensive income	0	0	0	0	155	5 527	5 682	5 682
Balance as at 31.12.2019	60 960	11 797	2 526	226	1	13 841	89 351	89 351

*See Note 19

Notes to the financial statements on pages 33 to 97 are an integral part of the consolidated financial statements.

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Notes to Consolidated Financial Statements

Note 1 Accounting principles

AS Coop Pank (Reg. No. 10237832) is a credit institution registered in Tallinn (Estonia) Narva road 4. These consolidated financial statements of AS Coop Pank for the year 2019 have been approved by the Management Board of AS Coop Pank and will be presented to the shareholders of the bank for approval.

Functional and presentation currency

The functional currency of the AS Coop Pank Group is euro. 2019 consolidated financial statements have been presented in thousands of euros, unless stated otherwise.

1.1 Basis of preparation

These consolidated financial statements of AS Coop Pank Group are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. These financial statements have been prepared under the historical cost convention, except as disclosed in some of the accounting policies below (i.e. financial assets at fair value). Financial statements have been prepared according to accrual principle of accounting. The Group classifies its expenses by nature of expense method. When the presentation or classification of items in the consolidated financial statements is amended, comparative information for the previous period are also reclassified, if not referred differently in specific accounting principle.

1.2 Critical accounting estimates and judgements

The preparation of the consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the EU requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Although these estimates are based on best knowledge and judgement of current events and actions, the actual outcome and the results ultimately may significantly differ from those estimates. More detailed overview of the estimates made is provided under accounting principles or disclosures set out below.
Critical estimates and judgements are primarily used in the following areas:

- loan allowances, incl. fair value assessments of collateral (Note 2; Note 11, 12);
- estimation of the fair value of investment property (Note 2);
- fair value of financial assets and liabilities (Note 2);
- goodwill impairment (Note 3).

The most significant management estimates are related to the introduction of the new IFRS 9 standard starting from 01.01.2018. Management has assessed the business model for classifying different financial assets. The commercial purpose of loans to customers is the collection of contractual cash flows, while loans under this model may also be sold for credit risk mitigation purposes. Financial investments in debt instruments are made for the purpose of investing liquid assets, which is why the commercial purpose of investing in debt instruments is to collect and sell contractual cash flows as needed. In addition, it has been assessed whether the contractual

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cash flows only include the principal and interest payments, including interest cash flows for the time value of money, credit risk, liquidity risk and, inter alia, cover administrative costs and profit margin.

Management also estimates the expected inputs of the expected credit loss model for financial assets. Models, estimates, and inputs are reviewed regularly by the Group Risk Management function.

Estimates and judgments of the management are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under these circumstances. Changes in assumptions may have a significant impact on the financial statements in the period assumptions are changed. Management believes that the underlying assumptions are appropriate and the Group's financial statements therefore present the financial position and results fairly.

1.3 Consolidation

These consolidated financial statements of the AS Coop Pank Group are comprised of the financial statements of the parent company AS Coop Pank and all of its subsidiaries Coop Liising AS, Coop Finants AS, Coop Kindlustusmaakler AS, AS Martinoza and SIA Prana Property as at 31 December 2019. Group entities use uniform accounting policies. The definition of group according to the Regulation (EU) No 575/2013 of the European Parliament and of the Council matches that of IFRS. The statements of financial position and income statements of the bank and its subsidiaries are consolidated on a line-by-line basis, eliminating the intercompany balances, revenues, income- expenses and unrealized gains/losses on transactions between group companies.

Subsidiaries

Subsidiaries are all economic entities in which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated in the financial statements from the time control arises until it ceases.
In parent company's separate financial statements investments in subsidiaries are accounted for at cost less any impairment recognized.

Non-controlling interest

Non-controlling interest is that part of the net results and of the net assets of a subsidiary, which is attributable to interests, which are not owned, directly or indirectly, by the Group. Non-controlling interest forms a separate component of the Group's equity. Non-controlling interest in the consolidated statement of financial position is disclosed separately from the equity attributable to the shareholders of the parent company. In consolidated statement of profit or loss and other comprehensive income, non-controlling interest share of profit is disclosed separately from owners of the parent.

1.4. Foreign currency transactions and assets and liabilities denominated in a foreign currency

All other currencies except for the functional currency, the euro, constitute foreign currencies. Foreign currency transactions have been translated to functional currencies based on the foreign currency exchange rates of the European Central Bank prevailing on the transaction date. Monetary assets and liabilities denominated in a foreign currency have been translated into functional currency based on the foreign currency exchange rates of the European Central Bank prevailing on the balance sheet date. Foreign exchange gains and losses are

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recognized in the income statement as income or expense of that period. Non-monetary financial assets and liabilities denominated in a foreign currency measured at fair value have been translated into functional currency based on the foreign currency exchange rates of the European Central Bank prevailing on the balance sheet date. Non-monetary assets and liabilities that are not measured at fair value (e.g. prepayments, inventories accounted for using the cost method; property, plant and equipment as well as intangible assets) in a foreign currency are not translated at the balance sheet date but they continue to be reported using the official exchange rate of the European Central Bank prevailing at the date of the transaction.

1.5. Financial assets

Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Measurement

At initial recognition, the Ggroup measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset (i.e. whether the Group's objective is solely to collect the contractual cash flows from the assets, or to collect both the contractual cash flows and also the cash flows from the sale of assets; or is none of the above described two models) and the cash flow characteristics of the asset (i.e. whether the cash flows represent solely payments of principal and interest ("SPPI"), interest including only consideration for credit risk, time value of money, other basic lending risks and profit margin). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

The Group's debt instruments have been classified into the following measurement categories:

- Amortised cost (AC): Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented

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in other income/(expenses). Foreign exchange gains and losses and impairment losses are presented as separate line items in the statement of profit or loss.

The following financial assets of the Group are classified in this category:

- Cash;
- Balances with central banks;
- Loans and advances to credit institutions;
- Loans and advances to customers;
- Other financial assets.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other income/(expenses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses and impairment expenses are presented as separate line items in the statement of profit or loss.

  The following financial assets of the Group are measured FVOCI:

  - Investments in debt securities.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt instrument that is subsequently measured at FVPL is recognised in profit or loss and presented net within other income/(expenses) in the period in which it arises. Such fair value gain or loss includes any contractual interest received on debt instruments classified to this category. As at 31 December 2018 and 31 December 2019 the Group had no debt financial assets measured FVPL.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has made an irrevocable election to present in OCI the fair value gains and losses on equity investments that are not held for trading, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other income/(expenses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

The Group subsequently measures equity investments at FVOCI.

Impairment of financial assets

The Group assesses on a forward-looking basis the expected credit losses ("ECL") associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

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The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

For trade receivables and contract assets without a significant financing component the Group applies a simplified approach permitted by IFRS 9 and measures the allowance for impairment losses at expected lifetime credit losses from initial recognition of the receivables. The Group uses a provision matrix in which allowance for impairment losses is calculated for trade receivables falling into different ageing or overdue periods.

For all other debt instruments at amortised cost or FVOCI, the Group follows a three-stage model based on changes in credit quality since initial recognition.

- Stage 1 – comprises balances for which the credit risk has not increased significantly since initial recognition. ECL is measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter (12-month ECL).
- Stage 2 – comprises balances for which there has been a significant increase in credit risk since initial recognition but which do not have objective evidence of impairment. The expected credit losses are determined on a lifetime basis.
- Stage 3 – comprises balances that are credit-impaired (i.e. which are overdue more than 90 days, if debtor is insolvent, if it is likely that the debtor will enter bankruptcy or financial reorganisation; non-performing receivable). The expected credit losses are measured as lifetime expected credit losses.

Debt instruments measured at AC are presented in the consolidated statement of financial position net of the allowance for ECL. For loan commitments and financial guarantees, a separate provision for ECL is recognised as a liability in the consolidated statement of financial position. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

For contracts that include both a loan and an undrawn commitment and where the Group cannot separately distinguish the ECL on the undrawn loan component from the loan component, the ECL on the undrawn commitment is recognised together with the loss allowance for the loan. To the extent that the combined ECLs exceed the gross carrying amount of the loan, they are recognised as a liability.

In a subsequent period, if the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement in "'Impairment losses on loans and advances".

More detailed overview of the credit risk management principles is given in Note 2 "Risk management". Interest income is recognized in the income statement "Interest income calculated using effective interest rate method".

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, demand deposits due from central banks and other credit institutions and term deposits with original maturities of three

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months or less, that are available for use without any significant restrictions and which are subject to an insignificant risk of changes in value. The cash flow statement is presented using the direct method.

Lease receivables

Finance lease transactions are lease transactions under which all significant risks and rights from using the assets are transferred from the Group to the lessee. Legal ownership of assets is transferred to the customer at the end of the lease term. The receivables from the financial lease agreements are recognized at net present value of the minimum lease payments, from which the payments of principal received have been deducted, plus unguaranteed residual value at the end of contract. Lease payments collected are allocated between repayment of principal and finance income. Finance income is recognized over the rental period based on the pattern reflecting a constant periodic rate of return on the lessor's net investment in the financial lease. The lessor's direct expenses related to the contract are part of effective interest rate and are booked as decrease of income from lease over the period of lease contract. Allowances for lease receivables are presented on the respective line of the statement of financial position at negative value. A lease receivable from a client is recognized in the statement of financial position as of the moment of delivering the assets being the subject of the agreement to the client. In case of transactions, in which the assets being the object of the agreement having a long delivery term have not yet been delivered to the client, the payments received from the lessees under these agreements are recognized in the statement of financial position as prepayments of buyers in line "Other financial liabilities". The amounts paid by the Group for the assets under lease agreements not yet delivered are recognize in the statement of financial position as prepayments to suppliers in line "Other financial assets".

Factoring and warehouse financing receivables

Factoring transactions are considered to be financing transactions where the Group provides the financial resources to its selling partners through transfer of the rights to the receivables from these sales transactions. The Group acquires the right for the receivables payable by the buyer subject to the sales contract. Factoring is the transfer of receivables. Depending on the terms of the factoring contract the buyer either accepts the transfer of substantially all the risks and rewards of the ownership of the receivable (non-recourse factoring) or retains the right to transfer the risks and rewards back to the seller during a pre- specified term (recourse factoring). Transaction is booked as financing in case the leasing company does not own all the rights related to the receivable. The receivable is included in statement of financial position until payment is received or recourse is expired. If a contract does not include the seller's guarantee and the leasing company acquires control of all rights at the moment of selling the receivable, the transaction is accounted for as an acquisition of a receivable at fair value. Subsequently receivables are measured at acquisition cost. The receivable from the client is recognized as of the moment of factoring the purchase-sale agreement, i.e. as of acquisition of the receivable.

Warehouse receipt financing transactions are financing transactions, where the lease firm finances its partners, by granting them a loan against pledged stock reserves.

1.6 Property, plant and equipment and intangible assets

Land, buildings, IT equipment, office equipment and other assets of long-term use are recognized in the statement of financial position as property, plant and equipment. Intangible assets are identifiable, non-monetary assets without physical substance and as at balance sheet date comprise acquired software.

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Property, plant and equipment and intangible assets are initially recognized at acquisition cost, consisting of the purchase price, non-refundable taxes and other direct costs related to taking the asset into use. Subsequent expenditures related to an item of property, plant and equipment are recognized as an asset if these are in accordance with definition of property, plant and equipment and meet the criteria for recognition in the statement of financial position (including if it is probable that future economic benefits associated with the item will flow to the entity). Ongoing repairs and maintenance expenditures are expensed during the reporting period in which they are incurred.

Property, plant and equipment and intangible assets with finite useful lives are subsequently stated at historical cost less depreciation / amortization and any impairment losses. Depreciation / amortization is calculated starting from the month of acquisition until the asset is fully depreciated. Assets are depreciated / amortized on a straight-line basis. Depreciation / amortization calculation is based on the useful life of the asset, which serves as basis for forming the depreciation / amortization rates. Depreciation of property, plant and equipment is charged in accordance with the estimated useful life of the asset from the month following the month it is taken into use:

- buildings 2-5% per annum,
- vehicles 15% per annum,
- fixtures 12.5% per annum,
- office equipment 25% per annum,
- computer hardware and software 10-25% per annum.

Non-current assets with an unlimited useful life (land) are not depreciated. Depreciation of non- current assets is presented in the income statement line item "Depreciation". Depreciation of an asset is ceased when the asset is fully depreciated, when the asset is reclassified as non-current assets held for sale or when the asset is retired from use. The appropriateness of the assets´ residual values, depreciation methods used and useful lives are reviewed, and adjusted if that has become appropriate, at each balance sheet date.

The gain or loss from sale of non-current assets are determined by comparison of the sales price with the carrying amount. Gain or loss on sale is recognized in the income statement in the line items "Net other income".

Capitalization of expenses

Reconstruction expenses related to the leased space used by the Group are capitalized as property, plant and equipment and expensed on a straight-line basis in accordance with the duration of the lease agreement.

Development costs

If software development expenses result in additional functionality and if they meet the definition of intangible assets and criteria for inclusion in the statement of financial position (incl. expected participation in the generation of future economic benefits), such expenses are recognized as intangible assets. Expenses related to the use of software are expensed as incurred.

Expenditures incurred on advertising and the launch of new products, services and processes are expensed as incurred. Expenditures associated with internally developed trademarks and other such items are expensed as incurred.

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<u>Goodwill</u>

Goodwill is recognized in acquisition value, minus accumalated impairment losses. The Group is testing the value of goodwill at least once a year or immediately if there is any indication that it might be impaired. Goodwill is distributed among cash-generating units or cash-generating unit groups, which are benefiting from the synergy of the business combination. Profit or loss from the termination or sale of cash-generating unit where goodwill is allocated, is consisting of the carrying amount of the goodwill allocated to the unit.

1.7 Investment property

Investment property is a real estate property which is primarily held for the purpose of earning rental income or for capital appreciation or for both purposes but not for the use in the ordinary course of business.

An investment property is initially recognized in the balance sheet at cost, including the purchase price and any expenditure directly attributable to the acquisition. After initial recognition, investment property is measured at fair value at each balance sheet date. Independent expert valuation is used for determining the fair value of investment property, which is based on either the income approach (the value is determined by calculating the present value of future cash flows generated by the asset) or market approach (comparable market transactions involving similar properties are analysed) or a combination of the two aforementioned approaches is used.
Gains and losses arising from a change in the fair value of investment property are recognized in the line item "Change in fair value of investment property" in the income statement of the reporting period in which they are incurred.

When an investment property undergoes a change in use, the asset is reclassified in the statement of financial position. From the date when this change occurred, accounting policies of this asset group into which the item has been reclassified shall be applied. If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment and its fair value at the date of reclassification becomes its cost for subsequent accounting purposes. If an item of owner-occupied property becomes an investment property any difference resulting between the carrying amount of the property is recognized in the statement of comprehensive income.

If a change occurs in the use of an investment property, as evidenced by starting development for the purposes of preparation of the property for sale, the property is reclassified as inventory and the cost of the item of inventory is the fair value at the reclassification date.

1.8 Assets held for sale

Assets held for sale are assets that are held for sale in the course of ordinary business and are recognized at cost. Cost is either cash or the fair value of non-monetary consideration given to acquire an asset at the time of its acquisition or processing. Assets held for sale are measured at the balance sheet date and are carried in the balance sheet at the lower of cost and net realizable value. The net realizable value is the sales price less estimated costs to sell.

1.9 Impairment of non-financial assets

Assets with an indefinite useful life are not subject to amortization and are tested annually for impairment, comparing the carrying value of the asset to its recoverable value. Assets that are subject to amortization / depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In such circumstances, the recoverable value of the asset is assessed

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and compared to its carrying value. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

1.10 Leases – the Group as the lessee

Accounting policies from 01.01.2019

The Group is as lessee in all lease agreements. The Group leases office premises, IT networking equipment and other small items.

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group estimates that contracts for the use of IT equipment and items are not within the scope of IFRS16 because they do not contain a lease.

The Group determines the lease term as the non-cancellable period of a lease, together with both periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. A lessee reassesses whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee; and affects whether the lessee is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term. The Group revises the lease term if there is a change in the non-cancellable period of a lease.

Initial measurement

At the commencement date, a lessee shall recognise a right-of-use asset and a lease liability.

At the commencement date, a lessee shall measure the right-of-use asset at cost. The cost of the right-of-use asset shall comprise the amount of the initial measurement of the lease liability.

Right-of-use asset is recorded on the separate line in the statement of financial position.

At the commencement date, the Group measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. To determine the incremental borrowing rate, the Group uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received.

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At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term :
(a) fixed payments, less any lease incentives receivable;
(b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date. Variable lease payments that depend on an index or a rate include, for example, payments linked to a consumer price index, payments linked to a benchmark interest rate (such as EURIBOR) or payments that vary to reflect changes in market rental rates. Variable lease payments are included in some lease contracts of the Group.

For a contract that contains a lease component and one or more additional non-lease components. As a practical expedient, a lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

Subsequent measurement
After the commencement date, a lessee measures the right-of-use asset applying a cost model. To apply a cost model, a lessee measures the right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liability. Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the lease transfers ownership of the underlying asset to the lessee by the end of the lease term or if the cost of the right-of-use asset reflects that the lessee will exercise a purchase option, the lessee shall depreciate the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the lessee shall depreciate the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

After the commencement date, a lessee shall measure the lease liability by:
a) increasing the carrying amount to reflect interest on the lease liability;
b) reducing the carrying amount to reflect the lease payments made; and
c) remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.

Interest on the lease liability in each period during the lease term shall be the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability. After the commencement date, a lessee recognises in profit or loss interest on the lease liability and variable lease payments not included in the measurement of the lease liability in the period in which the event or condition that triggers those payments occurs.

If there are changes in lease payments, there may be need to remeasure the lease liability. A lessee shall recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, a lessee shall recognise any remaining amount of the remeasurement in profit or loss.

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A lessee shall remeasure the lease liability by discounting the revised lease payments using a revised discount rate, if either:
(a) there is a change in the lease term. A lessee shall determine the revised lease payments on the basis of the revised lease term; or
(b) there is a change in the assessment of an option to purchase the underlying asset. A lessee shall determine the revised lease payments to reflect the change in amounts payable under the purchase option.

A lessee shall remeasure the lease liability by discounting the revised lease payments, if either:
a) there is a change in the amounts expected to be payable under a residual value guarantee. A lessee shall determine the revised lease payments to reflect the change in amounts expected to be payable under the residual value guarantee.
b) there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments, including for example a change to reflect changes in market rental rates following a market rent review. The lessee shall remeasure the lease liability to reflect those revised lease payments only when there is a change in the cash flows (ie when the adjustment to the lease payments takes effect). A lessee shall determine the revised lease payments for the remainder of the lease term based on the revised contractual payments. The lessee shall use an unchanged discount rate, unless the change in lease payments results from a change in floating interest rates.

A lessee shall account for a lease modification as a separate lease if both: (a) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and (b) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

The Group has elected not to apply the requirements of IFRS 16 to short-term leases and leases for which the underlying asset is of low value. Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise of IT equipment.

Accounting policies until 31.12.2018

Leases of assets where the lessee acquires substantially all the risks and rewards of ownership are classified as finance leases. Other leases are classified as operating leases.

The Group has not leased any assets under finance leases during the reporting period or the previous reporting period. Operating lease payments are recognized in the income statement as expenses over the rental period on straight line basis. The Group uses operating leases mainly for renting buildings / premises. Rental expense is recognized in income statement as "Operating expenses".

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1.11 Financial liabilities

The classification made can be seen in the table below:

Category by IFRS9 — Category as determined by the Group

<table>
<tr><td rowspan="5">Financial liabilities</td><td rowspan="5">Financial liabilities measured at amortized cost</td><td rowspan="3">Deposits from customers and loans received</td><td>Private individuals</td></tr>
<tr><td>Legal entities</td></tr>
<tr><td>Credit institutions</td></tr>
<tr><td colspan="2">Subordinated debt</td></tr>
<tr><td colspan="2">Other financial liabilities</td></tr>
<tr><td rowspan="2">Contingent liabilities</td><td colspan="3">Contingent loan commitments</td></tr>
<tr><td colspan="3">Financial guarantees</td></tr>
</table>

Deposits from customers

Deposits are recognized in the statement of financial position on their settlement date at fair value net of transaction costs and subsequently measured at amortized cost using the effective interest rate method and presented on line item "Customer deposits and loans received", accrued interest is included in corresponding liabilities line items. Interest expense is recorded in the income statement on line "Interest and similar expense".

Loans received

Loans received are recognized initially at fair value net of transaction costs (the proceeds received, net of transaction costs incurred). Borrowings are subsequently stated at amortized cost using the effective interest rate method; any difference between proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the instrument using effective interest rate. The effective interest rate is the rate that exactly discounts the expected stream of future cash payments through maturity. The amortization of the transaction costs is presented in the income statement together with the interest expense. The respective interest expense is recorded in the income statement on line "Interest and similar expense". In case there is an unused limit for any borrowings, this is presented as contingent asset.

Payables to employees

Payables to employees include unpaid salary accruals, accruals for bonuses together with social security and unemployment insurance tax and a vacation pay accrual calculated in accordance with employment contracts and the laws of the Republic of Estonia in force as at the balance sheet date. The liability related to the payment of a vacation pay accrual together with social security and unemployment insurance premiums is included within current liabilities in the balance sheet and as wages and salaries expense in the statement of comprehensive income. Social tax includes payments to the state pension fund.

The Group has no existing legal or constructive obligations to make pension payments or similar payments supplementary to social tax.

Loan commitments

The Group issues commitments to provide loans. These commitments are irrevocable or revocable only in response to a material adverse change. Such commitments are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at (i) the remaining unamortised balance of the

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amount at initial recognition, plus (ii) the amount of the loss allowance determined based on the expected credit loss model, unless the commitment is to provide a loan at a below market interest rate, in which case the measurement is at the higher of these two amounts. The carrying amount of the loan commitments represents a liability.

1.12 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions, companies and other bodies on behalf of customers to secure loans, other banking facilities and liabilities to other parties.

Financial guarantees are initially recognized in the financial statements at fair value (contract value) on the date the guarantee was given. Subsequent to initial recognition, the bank's liabilities under such guarantees are recognized at the outstanding value of guarantee. In the income statement the fee income earned on a guarantee is recognized straight-line basis over the life of the guarantee. In cases where the fees are charged periodically in respect of an outstanding commitment, they are recognized as revenue on a time proportion basis over the respective commitment period. At the end of each reporting period, the commitments are reflected either contract value at the time of reporting or contract value and in addition provision in balance sheet. The amounts disbursed to settle the guarantee obligation are recognized in the statement of financial position on the date it is disbursed.

1.13 Share-based payments

The Group has establishe a share-based option program, under which the Group issues options to employees to buy shares of Coop Pank AS in return for their services. The fair value of options issued is recognized as an expense over the term of the option program as an increase in the Group's labor costs and an increase in equity (other reserves). The total cost is determined by the fair value of the options at the time they are issued. The fair value of the options is determined taking into account the market conditions affecting the option price, including the share price of Coop Pank AS. At the end of each reporting period, the Group estimates how many options are likely to be exercised. Changes compared to initial estimates are recognized in the income statement and with a correspondent adjustment to equity. When the options are exercised, Coop Pank AS issues new shares. According to the terms and conditions of the share options, there are no social tax expenses when exercising options after 3 years.

1.14 Revenue and expense recognition

Interest income and expense is recognized in income statement for all interest-earning financial assets and interest-bearing financial liabilities carried at amortized cost using the effective interest rate method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all significant fees paid or

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received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.
Interest income also includes similar income on interest bearing financial instruments classified at fair value through profit or loss.

Fee and commission income

The recognition of revenue from contracts with customers is reported as fee and commission income. This does not apply for revenue from leasing contracts or financial instruments and other contractual obligations within the scope of IFRS 9 Financial Instruments. Credit issuance fees for loans / leases are deferred and recognized as an adjustment to the effective interest rate on the credit.

Fee and commission income is recognised over time on a straight line basis as the services are rendered, when the customer simultaneously receives and consumes the benefits provided by the Group's performance. Such income includes recurring fees for account account servicing. Variable fees are recognised only to the extent that management determines that it is highly probable that a significant reversal will not occur.

Other fee and commission income is recognised at a point in time when the Group satisfies its performance obligation, usually upon execution of the underlying transaction. The amount of fee or commission received or receivable represents the transaction price for the services identified as distinct performance obligations. Such income includes fees for arranging a sale or purchase of foreign currencies on behalf of a customer, fees for processing payment transactions, fees for cash settlements, collection or cash disbursements,

Revenue from sale of assets

Revenue from sale of assets is recognised in transaction price. Transaction price is the total conideration, that the Group is entitled to receive for the transfer of promised goods or services to customer, less amounts collected on behalf of third parties. The Group recognises revenue from sale of goods when the control over the goods or services is transferred to the customer.

Dividend income

Dividends are recognized in the income statement when the entity's right to receive payment is established.

1.15 Taxation

In connection to the amendments to the Income Tax Act, starting from 2018 credit institutions are obliged to pay advance income tax of 14% on previous quarter net income before income tax. Advance income tax paid can be taken into account on the distribution of profits and the calculation of the related income tax liability. In calculating income tax, the profit is reduced by the dividends received and the profit attributed to the permanent establishment to which the exemption method is applied in order to avoid double taxation. Secondly, the profits will be reduced by losses earned in the previous quarters. Income tax is recognized in the consolidated income statement as income tax expense in the period in which the basis for calculating the income tax is calculated, regardless of when the income tax is paid.

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The corporate income tax arising from the payment of dividends or other payment decreasing the equity is accounted for as an expense in the period when dividends or other payment decreasing the equity are declared, regardless of the actual payment date or the period for which the dividends are paid.

From 2019, tax rate of 14/86 can be applied to dividend payments. The more beneficial tax rate can be used for dividend payments in the amount of up to the average dividend payment during the three preceding years that were taxed with the tax rate of 20/80. When calculating the average dividend payment of three preceding years, 2018 will be the first year to be taken into account.

1.16 Statutory reserve capital

Statutory reserve capital is formed from annual net profit allocations to comply with the requirements of the Commercial Code. During each financial year, at least one-twentieth of the net profit shall be transferred to the statutory reserve, until reserve reaches one-tenth of share capital. Statutory reserve may be used to cover a loss, or to increase share capital. Payments to shareholders from statutory reserve are not allowed.

1.17 Events after the balance sheet date

Material events that have an effect on the evaluation of assets and liabilities and that became evident between the balance sheet date and the date of preparation of the financial statements by the management board but that are related to transactions in the reporting period or earlier periods, are reported in the financial statements.

1.18 New International Financial Reporting Standards, amendments to published standards and interpretations by the International Financial Reporting Interpretations Committee.

Certain new or revised standards and interpretations have been issued that are mandatory for the Group's annual periods beginning on 01.01.2019:

IFRS 16, "Leases" (effective from 1 January 2019):

The Group has adopted IFRS 16 "Leases" retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. Therefore, the information about the comparatives for the 2018 reporting period are presented under the previous leasing standard IAS 17 and respective interpretations. The cumulative effect of initially applying this standard has been recognised as an adjustment to the opening balance of retained earnings at the date of initial application.

On initial application the Group recognised right-to-use asset in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. The Group measured the lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at the date of initial application, i.e. 1 of January 2019. On initial application, the Group applied the following weighted average lessee's incremental borrowing rates to the lease liabilities: 1,25% for premises.

Practical expedients on initial application

As a practical expedient, the Group has elected not to reassess whether a contract is, or contains a lease at the date of initial application.an entity is not required to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its

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assessment made applying IAS 17 "Leases" and Interpretation 4 "Determining whether an Arrangement contains a Lease".

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard for leases previously classified as operating leases:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- a lessee may rely on its assessment of whether leases are onerous applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review. If a lessee chooses this practical expedient, the lessee shall adjust the right-of-use asset at the date of initial application by the amount of any provision for onerous leases recognised in the statement of financial position immediately before the date of initial application;
- not to apply the requirements of IFRS 16 to leases for which the lease term ends within 12 months of the date of initial application;
- exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application, and
- use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

For leases that were classified as finance leases applying IAS 17, the carrying amount of the right-of-use asset and the lease liability at the date of initial application shall be the carrying amount of the lease asset and lease liability immediately before that date measured applying IAS 17. The Group did not have such rent agreements.

Measurement of lease liabilities on initial application

Lease liabilities that are recognised in the statement of financial position on initial application, are presented below:

Future minimum lease payments in relation to non-cancellable operating leases as at 31 December 2018	1 937
Discounted using the lessee's incremental borrowing rate of at the date of initial application: 1,25%	1 861
Less: short-term leases not recognised as a liability	-67
Less: low-value leases not recognised as a liability	-27
Lease liability recognised in the statement of financial position as at 1 January 2019	1 768

On initial application, the Group has measured the associated right-of-use asset at the amount equal to the lease liability. As of 01.01.2019, EUR 1.8 million was recognized on the Group's statement of financial position as assets and liabilities, thus increasing the total of the statement of financial position of the Group.

The Group's consolidated statement of profit or loss and other comprehensive income includes the following amounts relating to leases:

tEUR	**2019**
Interest expense (included in finance cost)	21
Expense relating to short-term leases (included in operating expenses)	134
Expense relating to leases of low-value assets (included in operating expenses)	27

The total cash outflow for leases in 2019 was 516 thousand euros.

Other standards, that became effective from 1 January 2019, did not have any material impact on the Group.

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New or revised standards and interpretations have been issued that will become mandatory for the Group from 01.01.2020 or later, and which the Group has not implemented early:

Amendments to the Conceptual Framework for Financial Reporting (effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU).
The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.
The Group is currently assessing the impact of the new amendments on financial statements.

Definition of a business – Amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU).
The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets).
The Group is currently assessing the impact of the new amendments on financial statements.

Definition of materiality – Amendments to IAS 1 and IAS 8 (effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU).
The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.
The Group is currently assessing the impact of the new amendments on financial statements.

There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact on the Group.

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Note 2 Risk management

Principles of risk management

The Group defines risk as possible negative deviation from the expected result. Risk management is a process aimed at efficiency and profitability of operations that would meet the expectations of shareholders identified in the strategy. As risks are associated with all business activities and on all levels of activity, in addition to the management, risk management involves also all the Group's employees through the internal control system. The tasks of risk management is the identification and measurement of business-related risks, implementation of measures necessary for controlling risks and reporting on risk management performance.

Structure and responsibility of risk management

The Group's risk management system is centralized on the management level - policies and principles of risk management are established at Group level by the Bank's Supervisory Board or Management Board to ensure implementation of common risk management principles in AS Coop Pank and its subsidiaries as well as rapid and effective response to changes in the economic environment or in the Group's business model. Risk management procedures must comply with existing legislative regulations and standards.

The Bank's Management Board is responsible for implementation of risk management, control and risk management policies and methods and effectiveness of risk management. In organizing risk management, the Management Board may in limited degree delegate risk taking, control and monitoring to collegial decision-making bodies with limited decision-making competence set up by the Management Board.

The Bank's Management Board has set up the following committees and commissions with limited decision-making competence:

The tasks, composition and activities of the **Asset/Liability Management Committee** is defined with its rules. The committee's task is to monitor, control, analyse, and evaluate risks, make decisions and implement them in the following areas of responsibility:

- assessment and management the Bank's and Group's liquidity risk, short- and long-term liquidity position;
- monitoring of the maturity structure of the Bank's assets and liabilities;
- planning of the balance of interest income and expenses and management of interest rate risk;
- introducing limits on term and volume measures related to counterparties;
- bond portfolio management.

The Credit Committee is the Bank's highest body for making credit decisions, a workgroup responsible for risk management formed in accordance with the Credit Institutions Act and the Bank's statutes for ensuring that the Bank's credit policy is implemented through the adoption of credit decisions and compliance assessment of collateral.

Credit Commission performs the functions of the Credit Committee in adopting decisions on lower-risk credit.

Account Establishment Committee manage and control through its decisions with clients with a higher risk of money laundering and terrorist financing prevention, the establishment of customer relationships and monitoring and, if necessary, termination of customer relationships.

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For effective implementation of risk management, the Group uses a 3-level control system in accordance with the principles of internal control system approved by the Supervisory Board.

Structural units with direct risk control function:

First line of defence

The first level constitutes sales and support divisions and subsidiaries. The first line of defence is to ensure that risks related to the activities, products, and processes in its area of responsibility are identified, assessed and that implementation of measures necessary for controlling risks.

Second line of defence

The role of the second line of defence is performed by risk managers and analysts in Risk Management Department and Credit Risk Department.

The main functions of the second line of defence are:

- group wide view of regular identification, assessment and monitoring of risks;
- stress testing for liquidity, credit and market risks and drawing up relevant risk reports;
- the notification of the Management and Supervisory Board of risks;
- development of risk management methodology, first line of defence counselling in risk management;
- conducting training in the field of risk management;
- control and monitoring of compliance with internal rules and legislation;
- conducting scheduled and emergency internal controls within the organization.

Third line of defence

Internal Audit Unit

The Internal Audit Unit audits the compliance of the Group's activities with legislation and instructions, the operation and efficiency of the business processes and internal control system, the compliance of the Bank's structural units with the decisions taken by the Bank's competent body, as well as compliance with the established rules, limits and other internal regulations. The activity of the Internal Audit Unit is aimed at protecting the interests of the Bank's shareholders, depositors and other creditors.

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Capital management

The Group uses risk-based capital planning which ensures that all risks are adequately covered by own funds at any given time. Capital is defined as the Group's equity which consist of Tier 1 and Tier 2 capital. Overview of regulatory capital is provided in the following table:

Capital base	31.12.2019	31.12.2018
Tier 1 capital		
Paid-in share capital and share premium	72 757	38 374
Statutory reserve capital	2 526	2 288
Accumulated profit/loss	8 314	3 799
The accepted profit of the reporting period	3 944	3 989
Other accumulated comprehensive income	1	-154
Goodwill as intangible asset (-)	-6 757	-6 757
Intangible assets (-)	-3 712	-2 290
Adjustment of value arising from requirements of reliable measurement (-)	-4	-10
Other deductions from Tier 1 Capital (-)	-538	-313
Other adjustments of own funds resulting from transitional provisions	535	598
Total Tier 1 capital	77 066	39 524
Subordinated debt	7 000	5 000
Tier 2 capital	7 000	5 000
Eligible capital for capital adequacy calculation	84 066	44 524
Capital adequacy (%)	24.35%	18.06%
Tier 1 capital ratio (%)	22.32%	16.03%

From 2016 forward, the calculation of own funds is based on the guidelines of the European Commission Delegated Regulation no 183/2014 according to which, any amounts recognized during the financial year may be included in the calculation of general and specific credit risk adjustments only if the corresponding amounts are deducted from the credit institution’s Tier 1 capital.

As at 31.12.2019 and 31.12.2018, the Group complies with all regulatory capital requirements.

Capital planning is conducted on the basis of financial position and profit and loss forecasts that take into account the Group's strategy, future expectations, risk profile and risk appetite. Capital planning is the responsibility of the Bank's Management Board.

The internal capital adequacy assessment (ICAAP) is an ongoing process, which aims to assess the Group's risk profile and the corresponding need for capital. ICAAP is the basis for regular capital planning in the Group.

The planning and forecasting of capital requirement takes place on the basis of calculating regulatory capital adequacy that takes into account capital requirements arising from ICAAP and supervisory assessment of the Financial Supervisory Authority (SREP) plus capital requirements to cover additional risks that are not taken into account in the context of regulatory capital requirements.

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The Group's risk profile is assessed in particular by the following risks: credit risk, concentration risk, liquidity risk, market risk, including risk exposure from the portfolio of financial investments, the Bank's portfolio of interest rate risk, operational risk, strategic risk, reputation risk.

The recommended minimum capital adequacy level is the minimum required capital adequacy level determined in the SREP assessment plus the need-based reserve required for increasing business volumes, implementing strategy plans and ensuring a stable financial position in accordance with the Group's current operating strategy and balance sheet forecasts.

For determining the capital requirement, the financial position is forecast, taking into account changes by items of the risk position and equity. The financial position and profit and loss forecasts are reviewed regularly and approved by the Bank's Management Board. It also takes into account the possible impact of strategic and reputation risk to the Group's business success, and determines the necessary equity buffer to ensure that desired internal capital adequacy level if alternative and risk scenarios materialize. Overview of the development of capital adequacy including the capital requirements arising from the SREP assessment are presented to the Bank's Management Board and the Supervisory Board on a quarterly basis.

The Group ensures that all risks are covered by adequate capital at any time.

Credit risk management

Credit risk is the risk of suffering financial loss, should any of the Group's customers or counterparties fail to fulfill their contractual obligations to the Group.

The Group follows the standard method of calculating credit risk capital requirements. In calculating capital requirements, the Group uses ratings of accepted rating agencies according to the procedure established by the Financial Supervisory Authority.

Credit risk management is based on the Group's credit policy. The main objectives of credit policy are to sustainably achieve the rate of return on Group's assets from credit activities required by shareholders, adhering to the prudency and risk diversification principles and taking moderate risks that can be evaluated and managed.

Credit risk arises from the following financial instruments:

- Cash and cash equivalents (including cash in Central Banks and credit institutions, Note 9);
- Debt securities (bonds) (Note 10);
- Loans and advances to customers (Note 11);
- Other financial assets (Note 13).

The cash placements to credit institutions and financial investments into bonds are done within the counterparty transaction limits imposed by the Assets and Liabilities Committee (ALCO). When assessing the counterparty creditworthiness and credit limit, the counterparty's domicile, financial position, management, legal status and market position is taken into consideration. Additionally for investments into debt securities the liquidity and raiting is assessed.

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Credit risk measurement

The Group uses internal credit risk gradings, that reflect its assessment of the probability of default of the individual counterparties.

Classification and grouping of the Bank's loan receivables takes place once a month. The credit risk categories for credit receivables depend on the borrower's payment discipline and financial position.

A – there are no circumstances that could cause the loan to fail according to the terms and conditions of the loan agreement, i.e., the loan is outstanding, there are no overdue principal and interest payments or are up to 14 days past due;

B – contains potential weaknesses, the non-elimination of which may affect the borrower's creditworthiness in the future, principal or interest payments are past due by 15-30 days.

C – contains clearly identifiable shortcomings that suggest that the loan won't be fully repaid or that the loan has been restructured due to a solvency problem, with a past due of 31-60 days.

D – insufficient creditworthiness of the borrower, on the basis on which it can be assumed that the repayment of the loan under the contract is unlikely if the situation does not change significantly, i.e. a suspicious loan, a past due of 61-90 days;

E – the borrower is not able to permanently execute the loan according to contractual terms, i.e. defaulted loan, past due 91-180 days;

F – loan servicing has ended and there is no prospect of recovery, and/or the contract is extraordinarily terminated i.e. non-collectible loan, 181 days overdue or 91 days or more, and the repayments during 3 months have been 0 euros.

A debt of more than three (3) euros per contract is considered to be a debt in the principal or interest payments of the loan.

The Group allocates loans to credit quality classes as follows:

Risk class	Monitoring	PD%	Moody´s	S&P
A	Standard monitoring	0.01%- 1%	Baa1, Baa2, Baa3	BBB, BBB+, BBB-
B		1%-3%	Ba1, Ba2, Ba3	BB+, BB, BB-
C	Special monitoring	3%-8%	B1, B2	B+, B
D		8%-40%	B3	B-
E	Default	40%-80%	Caa, Ca	CCC, C
F		100%	C	D

Probability of Default (PD) ratios are calculated based on weighted average loan product mix of the Group and may vary with different product mix. S&P or Moody´s A rating classes are only applied to bonds traded on active market, therefore not shown in previous table for loans.

Measurement of expected credit loss (ECL)

The impairment requirements are based on a three-stage expected credit loss (ECL) model, which considers changes in credit quality since initial recognition. The Group uses internally developed models which take into account external macroeconomic indicators (including unemployment rate, economic growth).

In accorance with IFRS 9 the financial instruments are classified into three stages based on the number of days of past due, financial position of the legal entity and other changes in the quality of the receivable, either as a performing receivable (stage 1), an under-performing receivable (significant increase in credit risk, stage 2) or a

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non-performing receivable (default, stage 3). The allowance rate for Stage 1 receivables is based on the 12-month expected credit loss. The allowance rate for Stage 2 and Stage 3 requirements is determined on the basis of lifetime expected credit losses, the latter assumes default of the financial instruments.

Expected credit loss is result probability of default (PD), loss given default (LGD) and exposure at default (EAD) discounted to present day. For assessment of loan losses, the expected collections from the loan and interest payments over the coming periods are considered, as well as expected collections and anticipated proceeds from the realization of collateral, sale of the loan or future payments arising from the solvency, discounted at the financial asset's original effective interest rate, which together form a recoverable amount of the loan.

For the purpose of calculating the expected credit loss over the life of the contract, the expected 12-month PD of the receivable is adjusted with macroeconomic forecast.

For all products, the choice of macroeconomic scenarios used to correct PD’s is based on expert judgement and quantitative analysis. Of the macro indicators, the bank uses the rate of unemployment and the change in GDP. The regression analysis was made between Estonia’s overdue loans and macro indicators. The weighted impact on the probability of default is calculated using a weighting of 80% for the baseline scenario and 10% for a positive and negative baseline scenario for all products. Expert opinions have been used to determine the weights. Based on the prudence principle, macro-scenarios assume that the expected EAD, LGD and PD are unchanged until the economic growth is positive.

Individual and collective assessment, grouping

Loans are individually assessed where the total risk of the client (total amount of receivables, if the risk is subject to consolidation in the sense of regulatory concentration risk) exceeds the risk limit of 100 thousand euros and has rating of C, D, E and F.

Credit receivables are assessed on a collective or individual basis, based on the classification and grouping results. The purpose of grouping receivables is to collect receivables with similar credit risk to assess them on a collective basis, considering the type of loan, loan collateral, credit rating. The prerequisite for grouping is the availability of sufficient and statistically reliable information. The calculation of the characteristics and allowance rates of groups of receivables is based on the analysis of the statistical behaviour of the loan portfolio, changes in the actual loss events and the general economic situation, economic forecasts and the impact of the respective macro indicators on the solvency of the customers.

Frequency of receivable assessments:

- collective assessment is performed on a monthly basis;
- individual assessment is performed quarterly and the results are approved in the Bank's Credit Committee.

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Significant increase in credit risk

The Group consideres a financial instrument to have a significant increase in credit risk where one or more of the following criteria have been met:

- the customer's contractual payments have been past due over 30-days at least once in the past three months;
- significant increase in probability of default (PD) since issuing the loan – increase by 1,2% and 2,5x at the same time;
- one of the customer's receivables is restructured due to payment difficulties or contains grace period or interest rate rescheduling;
- the customer is under watch list.

All receivables from the same borrower are valued in the same category as the lowest risk category.

Definition of default and credit-impaired assets

The Group defines financial assets as default, which is fully aligned with the definition of credit-impaired, based on the following qualitative or quantitative criteria:
Quantitative criteria:

- at least one of the loans issued to customer is more than 90 days past due on its contractual payments (principal or interest) and
- overdue debt exceeds 3 euros.

Qualitative criteria:

- significant deterioration in the company's financial position to the extent that the customer is unable to service and repay the loan;
- infringement of financial or other covenants to an extent that materially affects the customer's solvency and ability to repay the loans;
- unintentional use of the funding received compared to what was agreed in the loan agreement to an extent that substantially affects the customer's solvency and ability to repay the loans;
- the client has filed (or filed against) a bankruptcy petition or a similar application for legal protection (e.g. reorganization);
- the client's cash flow/income is insufficient to fully meet his/her obligations and the client's collateral has been settled in enforcement or bankruptcy proceedings;
- the receivable has been reduced more than 1% of the receivable amount in the course of restructuring due to payment difficulties and the characteristics of the restructuring due to payment difficulties remain;
- a private customer has died and the receivable has not been re-written to a new borrower (such as a heir);
- the customer has committed fraud;
- financial assets have been purchased at a significant discount that reflects the credit losses incurred.

If the loan has been properly serviced for at least 6 months and none of the above criteria is present, the loan may go back to stage 1 or stage 2.

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Sensitivity analysis

When conducting sensitivity analysis, the Group uses macro indicators - the change of unemployment rate for loans to private individuals and the change in GDP for loans to legal entities.

The weighted impact on default probability is calculated using weighting of 80% for base scenario and 10% for a positive and negative base scenarios for all the loans categories. The table below shows the impact of changes in the base scenario weights on the Group's loans portfolio as at 31.12.2019.

Change in the weights of the scenario (base-positive-negative)	Impact on loan portfolio
80%-5%-15%	-39
80%-15%-5%	39

The following table shows the ECL change if the following changes in unemployment rate and GDP will occur:

	Impact on loan portfolio
Legal entities' loans: GDP change -2%	-16
Private individual's loans: unemployment rate +2%	-74

Maximum exposure to credit risk

The Group's maximum exposure to credit risk from financial instruments subjected to impairment:

31.12.2019	Stage 1	Stage 2	Stage 3	2019 total
Cash and cash equivalents	122 295	-	-	122 295
Debt securities at fair value through other comprehensive income	4 061	-	-	4 061
Loans to private individuals				
Consumer loans	58 992	1 976	1 250	62 218
Lease financing	25 901	498	25	26 424
Mortgage loans and other loans	175 127	3 978	582	179 687
Loans to legal entities				
Lease financing	32 815	5 206	106	38 127
Other loans to legal entities	148 771	5 476	5 097	159 344
Total	441 606	17 134	7 060	465 800
Loss allowance	-2 292	-1 686	-1 362	-5 340
Total net loans	439 313	15 448	5 698	460 460
Exposures related to off-balance sheet items				
Financial guarantees	4 161	-	-	4 161
Unused credit limits	18 728	-	-	18 728
Unused overdrafts	19 686	-	-	19 686
Total off-balance sheet exposures	42 575	-	-	42 575

The Group has changed the breakdown of receivables from private individuals by showing only loans issued by its subsidiary Coop Finants AS in the line "consumer loans". Other small loans issued by the bank are shown in the line "mortgage loans and other loans".

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31.12.2018	Stage 1	Stage 2	Stage 3	2018 total
Cash and cash equivalents	88 030	-	-	88 030
Debt securities at fair value through other comprehensive income	9 130	-	-	9 130
Loans to private individuals				
Consumer loans	46 733	1 212	615	48 560
Lease financing	16 625	245	5	16 875
Mortgage loans and other loans	134 224	3 989	355	138 568
Loans to legal entities				
Lease financing	20 645	2 986	4	23 635
Other loans to legal entities	98 864	5 797	262	104 923
Total	316 972	14 349	1 240	332 561
Loss allowance	-2 112	-1 109	-617	-3 838
Total net loans	314 860	13 240	623	328 723
Exposures related to off-balance sheet items				
Financial guarantees	2 186	-	-	2 186
Unused credit limits	18 075	-	-	18 075
Unused overdrafts	16 842	-	-	16 842
Total off-balance sheet exposures	37 103	-	-	37 103

Receivables from credit institutions and financial investments in securities brakedown by credit quality:

31.12.2019	AA- and higher	A- to A+	BBB- to BBB+	BB- to BB+	B- to B+	Not rated	Total
Cash and cash equivalents	2 136	716	0	0	0	119 443	122 295
Debt securities at fair value through other comprehensive income	1 254	0	1 398	420	0	989	4 061

31.12.2018	AA- and higher	A- to A+	BBB- to BBB+	BB- to BB+	B- to B+	Not rated	Total
Cash and cash equivalents	3 726	9 297	1 223	0	0	73 784	88 030
Debt securities at fair value through other comprehensive income	1 219	0	3 765	1 751	968	1 427	9 130

On assessing the credit quality, the Group uses credit rating from rating agencies Fitch, Moody's and Standard & Poor's according to the recitals of European Parliament and of the Council (EC) No 575/2013 Article 138. The management has estimated that credit institutions´ receivables carry low credit risk and that their expected credit losses are insignificant, given their strong credit rating, financial condition and short-term economic outlook.

Debt instruments are predominantly liquid, which is why their expected credit losses are also considered insignificant.

Not rated cash and cash equivalents include high quality receivables from European Central Bank and cash.

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Loans division by credit quality in different loan segments as at 31.12.2019 is presented in following tables:

Consumer loans to private individuals	Stage 1	Stage 2	Stage 3	2019 total
Standard monitoring	58 992	0	0	58 992
Special monitoring	0	1 976	0	1 976
Default	0	0	1 250	1 250
Total	58 992	1 976	1 250	62 218
Loss allowances	-1 365	-440	-960	-2 765
Carrying amount	57 627	1 536	290	59 453

Unused credit limits related to consumer loans can be cancelled which is the reason why loss allowances for unused credit limits have not been taken into account.

Lease financing to private individuals	Stage 1	Stage 2	Stage 3	2019 total
Standard monitoring	25 901	0	0	25 901
Special monitoring	0	498	0	498
Default	0	0	25	25
Total	25 901	498	25	26 424
Loss allowances	-69	-22	-10	-101
Carrying amount	25 832	476	15	26 323

Mortgage loans and other private loans	Stage 1	Stage 2	Stage 3	2019 total
Standard monitoring	175 127	0	0	175 127
Special monitoring	0	3 978	0	3 978
Default	0	0	582	582
Total	175 127	3 978	582	179 687
Loss allowances	-138	-172	-155	-465
Carrying amount	174 989	3 806	427	179 222

Lease financing to legal entities	Stage 1	Stage 2	Stage 3	2019 total
Standard monitoring	32 815	0	0	32 815
Special monitoring	0	5 206	0	5 206
Default	0	0	106	106
Total	32 815	5 206	106	38 127
Loss allowances	-118	-142	-17	-277
Carrying amount	32 697	5 064	89	37 850

Other loans to legal entities	Stage 1	Stage 2	Stage 3	2019 total
Standard monitoring	148 771	0	0	148 771
Special monitoring	0	5 476	0	5 476
Default	0	0	5 097	5 097
Total	148 771	5 476	5 097	159 344
Loss allowances	-602	-910	-220	-1 732
Carrying amount	148 169	4 566	4 877	157 612

The off-balance sheet portion of corporate loans is assessed individually. No allowances were applied for unused limits during the reporting period.

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Loans division by credit quality in different loan segments as at 31.12.2018 is presented in following tables:

Consumer loans to private individuals	Stage 1	Stage 2	Stage 3	2018 total
Standard monitoring	46 615	0	0	46 615
Special monitoring	118	1 212	0	1 330
Default	0	0	615	615
Total	46 733	1 212	615	48 560
Loss allowances	-1 138	-367	-458	-1 963
Carrying amount	45 595	845	157	46 597

Unused credit limits related to consumer loans can be cancelled which is the reason why loss allowances for unused credit limits have not been taken into account.

Lease financing to private individuals	Stage 1	Stage 2	Stage 3	2018 total
Standard monitoring	16 625	2	0	16 627
Special monitoring	0	243	0	243
Default	0	0	5	5
Total	16 625	245	5	16 875
Loss allowances	-43	-16	-1	-60
Carrying amount	16 582	229	4	16 815

Mortgage loans and other private loans	Stage 1	Stage 2	Stage 3	2018 total
Standard monitoring	132 361	1 083	0	133 444
Special monitoring	1 783	2 674	49	4 506
Default	80	232	306	618
Total	134 224	3 989	355	138 568
Loss allowances	-225	-175	-85	-485
Carrying amount	133 999	3 814	270	138 083

Lease financing to legal entities	Stage 1	Stage 2	Stage 3	2018 total
Standard monitoring	20 645	1 533	0	22 178
Special monitoring	0	1 453	0	1 453
Default	0	0	4	4
Total	20 645	2 986	4	23 635
Loss allowances	-117	-44	-1	-162
Carrying amount	20 528	2 942	3	23 473

Other loans to legal entities	Stage 1	Stage 2	Stage 3	2018 total
Standard monitoring	98 864	0	0	98 864
Special monitoring	0	5 797	0	5 797
Default	0	0	262	262
Total	98 864	5 797	262	104 923
Loss allowances	-589	-507	-72	-1 168
Carrying amount	98 275	5 290	190	103 755

The off-balance sheet portion of corporate loans is assessed individually. No allowances were applied for unused limits during the reporting period.

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The following table analyses loan transfers between stages, gross carrying values

31.12.2019	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
Loans to private individuals						
Consumer loans	15	57	0	115	1	387
Lease financing	410	101	1	0	24	3
Mortgage loans and other loans	2 027	1 220	185	37	136	11
Total	2 452	1 378	186	152	161	401
Loans to legal entities						
Lease financing	4 720	939	5	0	101	0
Other loans	2 938	905	2 607	0	2 480	0
Total	7 658	1 844	2 612	0	2 581	0

31.12.2018	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
Loans to private individuals						
Consumer loans	291	241	234	2	83	17
Lease financing	1 031	175	10	27	75	7
Mortgage loans and other loans	3 154	1 115	9	36	72	83
Total	4 476	1 531	253	65	230	107
Loans to legal entities						
Lease financing	639	58	0	43	4	0
Other loans	3 966	1 142	120	0	0	0
Total	4 605	1 200	120	43	4	0

Allocation of past due loans (gross carrying amount)

31.12.2019	Unsecured loans to private individuals	Secured loans to private individuals	Loans to legal entities	Total
1-30 days	3 796	4 993	6 328	15 117
31-60 days	918	568	961	2 447
61-90 days	516	305	333	1 154
over 90 days	1 133	400	5 138	6 671
Total	6 363	6 266	12 760	25 389

31.12.2018	Unsecured loans to private individuals	Secured loans to private individuals	Loans to legal entities	Total
1-30 days	3 925	4 375	2 120	10 420
31-60 days	974	631	3 649	5 254
61-90 days	439	252	37	728
over 90 days	703	437	367	1 507
Total	6 041	5 695	6 173	17 909

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Non-performing loans (stage 3)

31.12.2019	Gross carrying amount	Loss allowance	Carrying amount	Fair value of the collateral
Loans to private individuals				
Consumer loans	1 250	-960	290	0
Lease financing	25	-10	15	0
Mortgage loans and other loans	582	-155	427	1 685
Total	1 857	-1 125	732	1 685
Loans to legal entities				
Lease financing	106	-17	89	0
Other loans	5 097	-220	4 877	17 543
Total	5 203	-237	4 966	17 543

31.12.2018	Gross carrying amount	Loss allowance	Carrying amount	Fair value of the collateral
Loans to private individuals				
Consumer loans	615	-458	157	0
Lease financing	5	-1	4	16
Mortgage loans and other loans	354	-85	269	1 020
Total	974	-544	430	1 036
Loans to legal entities				
Lease financing	4	-1	3	72
Other loans	262	-72	190	403
Total	266	-73	193	475

Collaterals of financial assets

The Group evaluates the value of collateral both during the loan application process and subsequently. The Group has internal rules for the maximum acceptance value of different types of collateral at the time of applying for a loan. Estimates of the market value of collateral are based on the prudence principle and take into account the type, location, liquidity and probability of realization of collateral. Expert assessments are used to assess immovables. Individual valuations of commercial real estate are updated at least once a year or two. In the case of residential and other homogenous types of real estate, statistical indexing models are also used for regular revaluation.

The main types of loan collaterals are:

- real estate (mortgage on property);
- rights of claims;
- commercial pledge;
- machinery and equipment;
- guarantee of KredEx or Rural Development Foundation;
- a surety or guarantee from a private person or legal entity;
- bank deposit;
- pledge of shares;
- traded securities.

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Collaterals with a low correlation between the customer's payment risk and the market value of the collateral are preferred. Assets pledged as collateral must be insured, the life of the collateral must be longer than the loan repayment term and the market value of the collateral must exceed the loan balance.

Unsecured loans are issued to private individuals to a limited extent. Legal persons are only granted unsecured loans if the client's credit risk is very low, the solvency is high and the cash flow forecast is stable.

During the reporting period, the Group's internal rules regarding collateral have not changed significantly and there has also been no significant change in the overall quality of collateral.

The loan risk level is also expressed by the market value of the collateral relative to the loan amount, i.e. the LTV ratio. The financial impact of the collateral is important for loans and receivables that are unlikely to be serviced by the customer's primary cash flows, which is evidenced in long over due of the customers (over 90-days). An overview of the loan-to-market ratios of mortgage-backed non-performing loans and the breakdown of the credit portfolio by collateral are given in the tables below.

Non-performing (stage 3) loans, loan and collateral ratio (LTV), gross:

LTV, 31.12.2019	Gross carrying amount of private individuals	Gross carrying amount of legal entities	Total gross carrying amount of mortgage-backed loans
< 50%	345	2 732	3 077
50% - 60%	70	503	573
60% - 70%	31	0	31
70% - 80%	0	110	110
>80%	59	456	515
Total	505	3 801	4 306

LTV, 31.12.2018	Gross carrying amount of private individuals	Gross carrying amount of legal entities	Total gross carrying amount of mortgage-backed loans
< 50%	245	17	262
50% - 60%	60	0	60
60% - 70%	21	0	21
70% - 80%	33	249	282
>80%	0	0	0
Total	359	266	625

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Loans and advances to customers by types of collateral

Private individuals	31.12.2019	31.12.2018
Loans secured by mortgage	178 799	137 530
Leased assets	26 424	16 875
Unsecured loans	62 930	49 373
Personal sureties, guarantees	175	224
Other	1	1
Total	268 329	204 003
Loss allowance	-3 331	-2 508
Total of net loans	264 998	201 495

Legal entities	31.12.2019	31.12.2018
Loans secured by mortgage	125 384	85 698
Leased assets	38 126	23 635
Unsecured loans	920	780
Personal sureties, guarantees	2 180	1 948
Other	30 861	16 497
Total	197 471	128 558
Loss allowance	-2 009	-1 330
Total of net loans	195 462	127 228

Impairment losses on financial assets

Loan allowances during the reporting period are impacted by various factors:

- Movement from stage 1 to stage 2 or 3 due to signficant increase (or decrease) in the credit risk of a financial instrument or due to default, followed by moving from 12-month to lifetime expected credit loss model (or vice versa);
- Impairment allowance on new financial instruments recognized in the reporting period, as well as decrease in impairment due to derecognition;
- Regular review of risk parameters and resulting changes in ECL due to changes in probability of default (PD), exposure at default (EAD) and loss given default (LGD);
- Effects of model and assumption changes on the ECL model;
- The effect of discounting on the ECL model as the ECL is measured at present value;
- Effects of exchange rate fluctuations on financial assets denominated in foreign currencies;
- Loans and related write-downs written off during the reporting period.

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The following table analyses the movement of allowances during the reporting period. Net impact from movements between states is included in the line "Recalculations of allowances".

2019	Stage 1 (12 month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
Loss allowance at 01.01.2019	-2 112	-1 109	-617	-3 838
Transfer to stage 1	-106	103	3	0
Transfer to stage 2	115	-118	3	0
Transfer to stage 3	44	521	-565	0
Recalculations of allowances	1 064	-1 003	-1 144	-1 083
New financial assets originated or purchased	-1 297	-80	0	-1 377
Total net P&L charge during the period	-180	-577	-1 703	-2 460
Other movements with no P&L impact				
Write-offs	0	0	105	105
Financial assets derecognized during the period	0	0	853	853
Balance as at 31.12.2019	-2 292	-1 686	-1 362	-5 340

2018	Stage 1 (12 month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
Loss allowance at 01.01.2018	-1 466	-589	-2 219	-4 274
Transfer to stage 1	-68	58	10	0
Transfer to stage 2	184	-189	5	0
Transfer to stage 3	110	42	-152	0
Recalculations of allowances	-384	-431	-295	-1 110
New financial assets originated or purchased	-488	0	0	-488
Total net P&L charge during the period	-646	-520	-432	-1 598
Other movements with no P&L impact				
Write-offs	0	0	30	30
Financial assets derecognized during the period	0	0	2 004	2 004
Balance as at 31.12.2018	-2 112	-1 109	-617	-3 838

The following tables analyses the movement of allowances during the reporting period by product:

Loss allowance of consumer loans. 2019	Stage 1 (12 month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
Loss allowance at 01.01.2019	-1 138	-367	-458	-1 963
Transfer to stage 1	-1	0	1	0
Transfer to stage 2	1	-1	0	0
Transfer to stage 3	11	403	-414	0
Recalculations of allowances	628	-475	-942	-789
New financial assets originated or purchased	-866	0	0	-866
Total net P&L charge	-227	-73	-1 355	-1 655
Other movements with no P&L impact				
Write-offs	0	0	0	0
Financial assets derecognised during the period	0	0	853	853
Balance as at 31.12.2019	-1 365	-440	-960	-2 765

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Loss allowance of consumer loans, 2018	Stage 1 (12 month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
Loss allowance at 01.01.2018	-878	-372	-1 888	-3 138
Transfer to stage 1	-24	22	2	0
Transfer to stage 2	69	-69	0	0
Transfer to stage 3	108	15	-123	0
Recalculations of allowances	-245	37	-453	-661
New financial assets originated or purchased	-168	0	0	-168
Total net P&L charge	-260	5	-574	-829
Other movements with no P&L impact				
Write-offs	0	0	0	0
Financial assets derecognised during the period	0	0	2 004	2 004
Balance as at 31.12.2018	-1 138	-367	-458	-1 963

Loss allowance of lease financing to private individuals, 2019	Stage 1 (12 month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
Loss allowance at 01.01.2019	-43	-16	-1	-60
Transfer to stage 1	-9	8	1	0
Transfer to stage 2	1	-1	0	0
Transfer to stage 3	0	2	-2	0
Recalculations of allowances	14	-15	-19	-20
New financial assets originated or purchased	-32	0	0	-32
Total net P&L charge	-26	-6	-20	-52
Other movements with no P&L impact				
Write-offs	0	0	11	11
Financial assets derecognised during the period	0	0	0	0
Balance as at 31.12.2019	-69	-22	-10	-101

Loss allowance of lease financing to private individuals, 2018	Stage 1 (12 month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
Loss allowance at 01.01.2018	-49	-2	-2	-53
Transfer to stage 1	-2	2	0	0
Transfer to stage 2	8	-8	0	0
Transfer to stage 3	0	4	-4	0
Recalculations of allowances	11	-12	4	3
New financial assets originated or purchased	-11	0	0	-11
Total net P&L charge	6	-14	0	-8
Other movements with no P&L impact				
Write-offs	0	0	1	1
Financial assets derecognised during the period	0	0	0	0
Balance as at 31.12.2018	-43	-16	-1	-60

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Loss allowance of mortgage and other private loans, 2019	Stage 1 (12 month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
Loss allowance at 01.01.2019	-225	-175	-85	-485
Transfer to stage 1	-64	63	1	0
Transfer to stage 2	59	-62	3	0
Transfer to stage 3	16	43	-59	0
Recalculations of allowances	117	-39	-35	43
New financial assets originated or purchased	-41	-2	0	-43
Total net P&L charge	87	3	-90	0
Other movements with no P&L impact	0	0	20	20
Write-offs				
Financial assets derecognised during the period	0	0	0	0
Balance as at 31.12.2019	-138	-172	-155	-465

Loss allowance of mortgage and other private loans, 2018	Stage 1 (12 month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
Loss allowance at 01.01.2018	-94	-185	-257	-536
Transfer to stage 1	-12	4	8	0
Transfer to stage 2	45	-45	0	0
Transfer to stage 3	2	0	-2	0
Recalculations of allowances	-137	51	162	76
New financial assets originated or purchased	-29	0	0	-29
Total net P&L charge	-131	10	168	47
Other movements with no P&L impact				
Write-offs	0	0	4	4
Financial assets derecognised during the period	0	0	0	0
Balance as at 31.12.2018	-225	-175	-85	-485

Loss allowance of lease financing to legal entities, 2019	Stage 1 (12 month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
Loss allowance at 01.01.2019	-117	-44	-1	-162
Transfer to stage 1	-25	25	0	0
Transfer to stage 2	18	-18	0	0
Transfer to stage 3	2	8	-10	0
Recalculations of allowances	94	-100	-80	-86
New financial assets originated or purchased	-90	-13	0	-103
Total net P&L charge	-1	-98	-90	-189
Other movements with no P&L impact				
Write-offs	0	0	74	74
Financial assets derecognised during the period	0	0	0	0
Balance as at 31.12.2019	-118	-142	-17	-277

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Loss allowance of lease financing to legal entities, 2018	Stage 1 (12 month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
Loss allowance at 01.01.2018	-70	-11	-7	-88
Transfer to stage 1	0	0	0	0
Transfer to stage 2	4	-9	5	0
Transfer to stage 3	0	0	0	0
Recalculations of allowances	12	-24	1	-11
New financial assets originated or purchased	-63	0	0	-63
Total net P&L charge	-47	-33	6	-74
Other movements with no P&L impact				
Write-offs	0	0	0	0
Financial assets derecognised during the period	0	0	0	0
Balance as at 31.12.2018	-117	-44	-1	-162

Loss allowance of other loans to legal entities, 2019	Stage 1 (12 month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
Loss allowance at 01.01.2019	-589	-507	-72	-1 168
Transfer to stage 1	-7	7	0	0
Transfer to stage 2	36	-36	0	0
Transfer to stage 3	15	65	-80	0
Recalculations of allowances	211	-374	-68	-231
New financial assets originated or purchased	-268	-65	0	-333
Total net P&L charge	-13	-403	-148	-564
Other movements with no P&L impact				
Write-offs	0	0	0	0
Financial assets derecognised during the period	0	0	0	0
Balance as at 31.12.2019	-602	-910	-220	-1 732

Loss allowance of other loans to legal entities, 2018	Stage 1 (12 month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
Loss allowance at 01.01.2018	-375	-19	-65	-459
Transfer to stage 1	-30	30	0	0
Transfer to stage 2	58	-58	0	0
Transfer to stage 3	0	23	-23	0
Recalculations of allowances	-25	-483	-9	-517
New financial assets originated or purchased	-217	0	0	-217
Total net P&L charge	-214	-488	-32	-734
Other movements with no P&L impact				
Write-offs	0	0	25	25
Financial assets derecognised during the period	0	0	0	0
Balance as at 31.12.2018	-589	-507	-72	-1 168

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Write-offs of financial assets

The write-off of the receivables, i.e. the removal of the financial position from the statement of financial position, occurs in part or in full when the Group has implemented all possible recovery measures and it has been concluded that there is no reasonable expectation of further recoveries. The write-off indicator may be the termination of the recovery procedure or, in the case of a secured loan, the realization of the collateral, but the proceeds from the disposal have not been sufficient to cover the carrying amount of the receivable. Termination of the receivable procedure may be conditional on the death of the client, bankruptcy, criminal proceedings or a court-approved debt restructuring plan, under which the receivable is reduced.

Modification of financial assets

The Group may renegotiate loans and modify contractual terms. If the new terms are substantially different from the original terms, the Group derecognises the original financial asset and recognises a new asset. The Group also assesses whether the new financial asset is credit-impaired at intial recognition. If the terms are not substantially different the modification does not result in derecognition and the Group recalculates the gross carrying amount based on the new cash flows using the original effective interest rate of the financial asset and recognises a modification gain or loss.

In order to modify financial assets, loan agreements are restructured either due to commercial negotiations or payment difficulties, during which the payment term is extended or payment holidays are granted, including sometimes retrospectively. Restructuring practices are based on management estimates that payments by the customer are expected to continue. The risk of default on such loans is measured at the following reporting date and compared to the risk that existed at initial recognition under the original terms, unless the modification is significant and does not result in derecognition of the original asset. The Group monitors the subsequent operation of the modified assets. The Group may decide that, after the restructuring, the credit risk has significantly improved so that the assets are moved from Stage 3 to Stage 2 or Stage 1. This applies only to assets that have operated under the new terms for at least six consecutive months.

There were no significant effects due to the modification of the contractual cash flows of financial assets during the reporting period.

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Concentration of risks

The Group adheres to the principle of diversification of credit risk according to economic sector, geographical area and product. A summary of exposures by economic sector and geographical areas has been provided in the tables below.

Financial assets by economic sector classification

31.12.2019	E	K	L	S	G	D	I	Other	Total
Cash and cash equivalents	0	122 295	0	0	0	0	0	0	122 295
Debt securities at fair value through other comprehensive income	0	0	0	483	0	0	0	3 578	4 061
Loans and advances to customers	264 998	17 005	69 223	15 140	29 022	5 419	9 473	50 180	460 460
Equity instruments at fair value changes through other comprehensive income	0	0	0	0	0	0	0	13	13
Other financial assets	0	936	0	0	0	0	0	314	1 250
Total	264 998	140 236	69 223	15 623	29 022	5 419	9 473	54 085	588 079

31.12.2018	E	K	L	S	G	D	I	Other	Total
Cash and cash equivalents	0	88 030	0	0	0	0	0	0	88 030
Debt securities at fair value through other comprehensive income	0	0	0	1 434	0	0	0	7 696	9 130
Loans and advances to customers	201 495	12 000	48 044	5 110	13 308	4 494	8 099	36 173	328 723
Equity instruments at fair value changes through other comprehensive income	0	0	0	0	0	0	0	13	13
Other financial assets	0	179	0	0	0	0	0	154	333
Total	201 495	100 209	48 044	6 544	13 308	4 494	8 099	44 036	426 229

E-private individuals, K - finance and insurance activities, L - activities related to real estate, S- other services G-wholesale and retail, D - power and heat generation, I - hospitality, food service, C- manufacturing

58% of loans and advances to customers are granted to private individuals (31.12.2018: 61%). The portfolio of loans granted to legal entities is diversified between various economic sectors to avoid high levels of concentration. 35% (31.12.2018: 37%) of loans to corporates are granted to companies engaged in the real estate sector and 15% (31.12.2018: 10%) are attributable to wholesale and retail entities. The lending activity of the Group is focused on providing financing to local market. The distribution of loans and advances to customers according to credit product is provided in Note 11.

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Financial assets by geographical classification

31.12.2019	EE	LV	CH	US	Muud	Kokku
Cash and cash equivalents	120 843	0	0	0	1 452	122 295
Debt securities at fair value through other comprehensive income	507	0	0	1 254	2 300	4 061
Loans and advances to customers	454 888	2 455	2 479	0	638	460 460
Equity instruments at fair value changes through other comprehensive income	0	0	0	0	13	13
Other financial assets	936	0	0	314	0	1 250
Total	577 174	2 455	2 479	1 568	4 403	588 079

31.12.2018	EE	LV	FI	BE	Other	Total
Cash and cash equivalents	75 712	0	0	2 517	9 801	88 030
Debt securities at fair value through other comprehensive income	507	0	0	0	8 623	9 130
Loans and advances to customers	325 639	2 419	525	0	140	328 723
Equity instruments at fair value changes through other comprehensive income	0	0	0	13	0	13
Other financial assets	333	0	0	0	0	333
Total	402 191	2 419	525	2 530	18 564	426 229

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Liquidity risk management

Liquidity risk is defined as the risk of insufficient solvency on behalf of AS Coop Pank to perform its contractual obligations on a timely basis - i.e. the bank's failure to timely and sustainably finance various assets, or to liquidate its positions in order to perform contractual obligations. Liquidity risk is managed based on the liquidity management policy. The objective of liquidity management in AS Coop Pank is to guarantee, at any given moment, the timely and complete performance of the obligations assumed by the Group while optimizing the liquidity risk in such a manner as to achieve maximum and stable profitability on investments with different maturities.

The Bank's main liquidity management body is the Assets and Liabilities Committee (ALCO). The functions and areas of responsibility of ALCO in the management of liquidity are:

- to plan short-term and long-term liquidity of the Group, and to design and implement the measures to be used;
- to analyse and summarize the information concerning the Group's assets and liabilities, interest income and expenses, management of liquidity and investments, and, if necessary, to prepare the adoption of strategic decisions by the Board;
- to optimize the ratio of the maturities, profitability and instruments of the Group's assets and liabilities in order to achieve the bank's strategic objectives;
- to regulate the Group's required liquidity level as well the level of the risk of change in the acceptable interest rate risk and the acceptable value of assets and liabilities.

The following bodies are regularly informed of the bank's liquidity position: the Management Board, ALCO and Credit Committee. The bank maintains a sufficient level of liquidity in order to ensure timely performance of its obligations.

Coop Pank Group uses an approach based on the analysis of the duration gap between the maturities of assets and liabilities for the management of AS Coop Pank Group's liquidity position. An overview of the division of assets and liabilities by maturities has been provided in following table. Limits have been established for all major liquidity indicators. The following indicators are used for the measurement of liquidity risk:

- liquidity Coverage Ratio (LCR);
- maintenance period in a liquidity crisis situation;
- financing concentration;
- ratio of liquid assets to demand deposits;
- ratio of non-current liabilities to investments requiring stable funding.

The Group's total duration gap in the period of up to 12 months is negative. This indicates that the Group has more liabilities with a duration of up to 12 months compared to receivables with the corresponding duration. The management of the duration gap risk is based on estimates concerning forecast cash flows arising from liabilities – demand deposits are usually rather stable source of funding and up to 12-month term deposits are often prolonged – therefore the behavioural nature of these deposits is longer than 12 months. The Group ensures an adequate amount of liquidity buffers in order to meet the net outflow of liabilities as they become due.

The liquidity policy of the Group is built upon the principle of prudence and established liquidity buffers are sufficient to cover even a large-scale outflow of deposits. The Group has established a business continuity and

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recovery plan for conduct in a liquidity crisis, specifying the actions to be taken for covering a cash flow deficit even in extraordinary circumstances.

The overview of the Group's financial assets and financial liabilities by residual maturity (undiscounted cash flows) is provided in the table below.

31.12.2019	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Assets					
Cash and cash equivalents	121 893	400	0	0	122 293
Debt securities at fair value through other comprehensive income	0	0	4 061	0	4 061
Loans and advances to customers	39 180	85 284	272 935	193 242	590 641
Equity instruments at fair value through other comprehensive income	0	0	0	13	13
Other financial assets	1 263	0	0	314	1 577
Total financial assets	162 336	85 684	276 996	193 569	718 585
Liabilities					
Customer deposits and loans received	220 608	184 616	91 986	16 786	513 996
Lease liabilities	157	472	1 090	41	1 760
Other financial liabilities	3 658	24	0	0	3 682
Subordinated debt	149	374	1 985	8 653	11 161
Total financial liabilities	224 572	185 486	95 061	25 480	530 599
Off-balance sheet liabilities					
Undrawn lines of credit and overdraft facilities	38 414	0	0	0	38 414
Financial guarantees	4 161	0	0	0	4 161
Total on-balance-sheet and off-balance-sheet liabilities	267 037	185 486	95 061	25 480	573 064
Duration gap of financial assets and financial liabilities	-104 811	-99 802	181 935	168 089	145 411

31.12.2018	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Assets					
Cash and cash equivalents	87 538	500	0	0	88 030
Debt securities at fair value through other comprehensive income	514	1 371	7 245	0	9 130
Loans and advances to customers	26 300	59 794	203 403	132 670	422 167
Equity instruments at fair value through other comprehensive income	0	0	0	13	13
Other financial assets	155	0	0	178	333
Total financial assets	114 507	61 665	210 648	132 861	519 681
Liabilities					
Customer deposits and loans received	166 137	158 391	55 034	7 645	387 207
Other financial liabilities	4 126	0	0	0	4 126
Subordinated debt	0	337	1 350	6 325	8 012
Total financial liabilities	170 263	158 728	56 384	13 970	399 345
Off-balance sheet liabilities					
Undrawn lines of credit and overdraft facilities	34 917	0	0	0	34 917
Financial guarantees	2 186	0	0	0	2 186
Total on-balance-sheet and off-balance-sheet liabilities	207 366	158 728	56 384	13 970	436 448
Duration gap of financial assets and financial liabilities	-92 859	-97 063	154 264	118 891	83 233

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Market risk management

Market risk arises from the Group's trading and investment activities in the interest, currency and equity markets. Market risk arises from changes in interest rates, currency exchange rates and prices of financial assets. The acceptance of market risk is controlled by using risk limits. Different factors influencing market risks are monitored on a daily basis. The primary market risk bearing assets in the Group are investments in bonds. The volume of the bond portfolio decreased in total by 2019, a more detailed overview is given in Note 10. The average maturity of the portfolio has increased, but the total market risk has decreased, the risk arises primarily from bonds quoted in USD.

The market risk of the portfolio of bonds is mainly caused by the maturity date and possible change in the interest rates. The interest rate sensitivityof the financial investments portfolio is calculated regularly. The sensitivity of the debt securities portfolio given a 100 bp increase in interest rates as at 31.12.2019 was 41 thousand euros (31.12.2018: 128 th.euros).

Currency risk is defined as a risk arising from the differences in the currency structure of the Group's assets and liabilities. Changes in currency exchange rates cause changes in the value of assets and liabilities, as well as the amount of income and expenses measured in the functional currency. The Group generally maintains minimum foreign currency positions required for the provision of services to customers. All foreign currency positions are continually monitored and marked to market. The Group covers open foreign currency positions using swap and forward transactions. The total amount of open currency positions as at 31.12.2019 was 164 thousand euros (2018: 164 th.euros). The sensitivity analysis has been carried out with the justified effects of possible exchange rate changes (10% on average) on the statement of comprehensive income, remaining constant for all other variables, the impact amount is 16 thousand euros (2018: 16 th.euros).

Data on the structure of assets and liabilities by currency positions and respective net currency positions have been presented in following table.

31.12.2019	EUR	USD	Other	Total
Assets				
Cash and cash equivalents	120 658	796	841	122 295
Debt securities at fair value through other comprehensive income	1 409	2 652	0	4 061
Loans and advances to customers	460 460	0	0	460 460
Equity instruments at fair value through other comprehensive income	13	0	0	13
Other financial assets	961	184	105	1 250
Total financial assets	583 501	3 632	946	588 079
Liabilities				
Customer deposits and loans received	502 229	3 612	690	506 531
Subordinated debt	7 064	0	0	7 064
Other financial liabilities	5 075	0	112	5 187
Total financial liabilities	514 368	3 612	802	518 782
Off-balance sheet liabilities				
Undrawn lines of credit and overdraft facilities	38 414	0	0	38 414
Financial guarantees	4 161	0	0	4 161
Total on-balance-sheet and off-balance sheet liabilities	556 943	3 612	802	561 357
Net position	26 558	20	144	26 722

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31.12.2018	EUR	USD	Other	Total
Assets				
Cash and cash equivalents	86 287	811	932	88 030
Debt securities at fair value through other comprehensive income	2 377	6 753	0	9 130
Loans and advances to customers	328 723	0	0	328 723
Equity instruments at fair value through other comprehensive income	13	0	0	13
Other financial assets	153	178	2	333
Total financial assets	417 553	7 742	934	426 229
Liabilities				
Customer deposits and loans received	376 677	7 669	772	385 118
Subordinated debt	5 026	0	0	5 026
Other financial liabilities	4 055	0	71	4 126
Total financial liabilities	385 758	7 669	843	394 270
Off-balance sheet liabilities				
Undrawn lines of credit and overdraft facilities	34 917	0	0	34 917
Financial guarantees	2 186	0	0	2 186
Total on-balance-sheet and off-balance sheet liabilities	422 861	7 669	843	431 373
Net position	-5 308	73	91	-5 144

Interest rate risk is defined as a risk of unexpected unfavourable changes in interest rates that might affect the revenue generated by the Group. The Group is exposed to interest rate risk if the due payment dates of its main assets and liabilities are different, if the structure of assets and liabilities varies in different currencies or if the interest rates of assets and liabilities can be adjusted at different time intervals.

Interest-bearing financial assets and financial liabilities by next interest rate repricing period

31.12.2019	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Financial assets exposed to interest rate risk					
Balances with central banks	97 923	0	0	0	97 923
Loans and advances to credit institutions	2 452	400	0	0	2 852
Debt securities at fair value change through other comprehensive income	0	0	4 061	0	4 061
Loans and advances to customers, gross	275 465	192 072	145	0	467 682
Total Financial assets exposed to interest rate risk	375 840	192 472	4 206	0	572 518
Interest-bearing liabilities					
Customer deposits and loans received	219 691	198 914	77 903	7 577	504 085
Subordinated debt	0	0	0	7 000	7 000
Total interest-bearing liabilities	219 691	198 914	77 903	14 577	511 085
Exposure to interest rate risk duration gap	156 149	-6 442	-73 697	-14 577	61 433

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31.12.2018	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Financial assets exposed to intrest rate risk					
Balances with central banks	52 063	0	0	0	52 063
Loans and advances to credit institutions	13 746	500	0	0	14 246
Debt securities at fair value change through other comprehensive income	514	1 371	7 245	0	9 130
Loans and advances to customers, gross	203 428	131 120	19	0	334 567
Total Financial assets exposed to interest rate risk	269 751	132 991	7 264	0	410 006
Interest-bearing liabilities					
Customer deposits and loans received	165 592	159 862	49 549	6 435	381 438
Subordinated debt	0	0	0	5 000	5 000
Total interest-bearing liabilities	165 592	159 862	49 549	11 435	386 438
Exposure to interest rate risk duration gap	104159	-26 871	-42 285	-11 435	23 568

Interest rate risk management entails the analysis of the interest rate risk of all the Group's assets and liabilities and the management of duration. At least once a year the assessment of interest risk of the bank portfolio is done. The next tables give estimates of the annual impact of the parallel shift of the interest rate curve on interest income and interest expense by currencies.

The table below specifies the estimates with regard to the annual impact of a parallel shift by +100 bp in the yield curve on the net interest income:

31.12.2019	EUR	USD	Other	Total
Change in interest income	3 206	0	0	3 206
Change in interest expense	1 339	14	0	1 353
Change in net interest income	1 867	-14	0	1 853

31.12.2018	EUR	USD	Other	Total
Change in interest income	1 631	0	0	1 631
Change in interest expense	935	20	0	955
Change in net interest income	696	-20	0	676

The total impact of the 100 bp increase in the interest rate curve on net interest income over one year and corresponding impact on equity was 1 853 thousand euros (676 thousand euros 31.12.2018) at the balance sheet date, while the impact of the 100 bp interest rate decrease was 617 thousand euros (275 thousand euros 31.12.2018). Sensitivity to interest rates is impacted by the transfer of interest rate risk arising from the established contractual minimum rate on loans and floating interest rates. The interest rate risk scenario assumes the impact of derivative instruments and decrease of interest rates to a minimum level of 0%.

The impact of a 100 basis points increase in interest rates of the Group's economic value of equity, while discounting assets and liabilities through lifetime, as at 31.12.2019 was 646 thousand euros and the impact of a decrease of 100 basis points was 3 618 thousand euros, corresponding figures as at 31.12.2018 were 210 thousand euros and 2 836 thousand euros. The positive impact on the Group's equity from the decline of interest

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rates comes from the contracts with minimum interest levels that the Group has signed which are not affected by the deadline in interest rate. The change of interest rate date equals with the due date for these loans.

Interest risk management is made through limiting due dates of assets and liabilities of different currencies that are open to interest risk, balancing the structure of due dates of assets and liabilities and the use of derivative instruments when needed.

Operational risk management

Operational risk is risk arising from malfunctions or deficiencies in the Group's information systems, errors in personnel policy, negligence or wrongful behaviour of staff members, inadequate rules of procedure or external factors that cause damage to or disturb the Group's daily business activities. Operational risk includes informational technology risk, procedural risk, personnel risk, legal risk, security systems risk and discovery risk. The Group manages operational risk on the basis of established operational risk policy.

Operational risk is viewed and managed as a separate risk management area within the Group, with the required resources allocated and an adequate amount of own funds provided for covering potential losses. The management of operational risk is integrated within the Group's day-to-day activities. The nature, impact and need to control the operational risk must be acknowledged by all employees within the Group.

The evaluation of operational risk is, above all, carried out qualitatively, as the organization is relatively small and simple and actual loss events are a rare. The loss events are registered in the loss database, specifying the amount of loss that was incurred. The Group monitors the dynamics of operational risk by analysing the main risk indicators on a quarterly basis. Reports about the loss events related to the operational risk by analysing the main risk indicators are submitted to the Management Board on a regular basis at least once a quarter. The Group carries out operational risk self-evaluation on a regular basis. The Group uses the Basic Indicator Approach to calculate the operational risk capital requirement.

Fair value of assets and liabilities

The Group estimates the fair value of such financial assets and financial liabilities that are not measured at fair value in the statement of financial position of the Group. Assets not measured at fair value are primarily loans and advances to customers and liabilities not measured at fair value are mainly deposits.

The Group discounts cash flows using the market rate as a basis in order to estimate the fair value of financial assets and financial liabilities. Market rate for the loans is the average interest rate used in the Group in past 6 months prior to balance sheet date. When determining the fair value of the deposits current deposit balances are discounted using the deposit interest rates offered to new deposits included in the analysis.

IFRS 13 determines a hierarchy for fair value measurements, which is based on whether inputs are observable or unobservable. Observable inputs reflect market information obtained from independent sources; unobservable inputs reflect assumptions that are available for a market. The following hierarchy for fair value measurement has been established on the basis of these two categories of inputs:

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Level 1 – (unadjusted) quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date. This level includes publicly quoted equity-related securities and debt instruments listed on exchanges, as well as instruments quoted by market participants.
Level 2 – inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly (in the form of prices) or indirectly (are derived from prices). Sources for input parameters (for example euro bond yield curve or counterparty credit risk) are Bloomberg and Reuters.
Level 3 – inputs for the asset or liability that are not based on observable market information (unobservable inputs). Investment property is classified as Level 3 in the fair value hierarchy.

Fair value is calculated in accordance with the principles of Level 3 for assets and liabilities recognized in amortized cost, where assets or liabilities are not traceable with market parameters.

The fair value of loans and advances as at 31.12.2019 was 0,2% higher (993 thousand euros) than their carrying amount and the fair value of customer deposits corresponds to their carrying amount.
As at 31.12.2018 the fair value of loans and advances was 0,8% lower (2 524 thousand euros) than the carrying amount and the fair value of deposits corresponded to their carrying amount.

31.12.2019	Level 1	Level 2	Level 3	Carrying value	Fair value
Financial assets at fair value through other comprehensive income					
Debt securities	4 061	-	-	4 061	4 061
Equity instruments	-	13	-	13	13
Total of financial assets at fair value through other comprehensive income	4 061	13	-	4 074	4 074
Investment property	-	-	594	594	594
Financial assets at amortized cost					
Cash and cash equivalents	122 295	-	-	122 295	122 295
Loans and advances to customers	-	-	460 460	460 460	461 453
incl. private individuals	-	-	264 998	264 998	266 229
incl. legal entities	-	-	195 462	195 462	195 224
Other financial assets	1 263	-	-	1 263	1 263
Total of financial assets at amortized cost	123 558	-	460 460	584 018	585 011
Financial liabilities at amortized cost					
Customer deposits and loans received	-	-	506 531	506 531	506 531
incl. private individuals	-	-	338 137	338 137	338 137
incl. legal entities	-	-	165 693	165 693	165 693
incl. credit institutions	-	-	2 701	2 701	2 701
Other financial liabilities	-	-	5 187	5 187	5 187
Subordinated debt	-	-	7 064	7 064	7 064
Total of financial liabilities at amortized cost	-	-	518 782	518 782	518 782

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31.12.2018	Level 1	Level 2	Level 3	Carrying value	Fair value
Financial assets at fair value through other comprehensive income					
Debt securities	9 130	-	-	9 130	9 130
Equity instruments	-	13	-	13	13
Total of financial assets at fair value through other comprehensive income	9 130	13	-	9 143	9 143
Investment property	-	-	904	904	904
Financial assets at amortized cost					
Cash and cash equivalents	88 030	-	-	88 030	88 030
Loans and advances to customers	-	-	328 723	328 723	326 200
incl. private individuals	-	-	202 177	202 177	199 853
incl. legal entities	-	-	126 546	126 546	126 347
Other financial assets	333	-	-	333	333
Total of financial assets at amortized cost	88 363	-	328 723	417 086	414 563
Financial liabilities at amortized cost					
Customer deposits and loans received	-	-	385 118	385 118	385 118
incl. private individuals	-	-	237 279	237 279	237 279
incl. legal entities	-	-	137 837	137 837	137 837
incl. credit institutions	-	-	10 002	10 002	10 002
Other financial liabilities	-	-	4 126	4 126	4 126
Subordinated debt	-	-	5 026	5 026	5 026
Total of financial liabilities at amortized cost	-	-	394 270	394 270	394 270

Investment property is measured at fair value on the basis of expert appraisal carried out by qualified appraisers, as applicable to level 3 instruments. Independent expert valuation is based on either the income approach, market approach or a combination of the two aforementioned approaches is used.

The following attributes are used by expert appraisals for the determination of fair value of investment property:

- rental income: rents under current lease agreements are used;
- vacancy rate: the actual vacancy rate of the investment properties, taking into account the risks associated with the property;
- discount rate: it is calculated using the weighted average cost of capital (WACC) associated with the investment property;
- capitalization rate: it is based on the estimated level of return at the end of the estimated holding period, taking into consideration the forecast market condition and risks associated with the property.

Income approach based on the capability of the asset to generate income in the future. The value is defined as the present value of the expected future income. The income approach is used for the valuation of income-producing real estate (leased asset or can be deemed to be a leased asset). Income-based approaches are the capitalization of income and discounted cash flow analysis.

Market approach is based on analysis to compare the appraised asset to sold assets of similar nature. The comparison determines differences between the appraised asset and sold assets of similar nature and then uses

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the results to adjust the prices of sold assets and determine the value of the appraised asset. In certain situations it is not possible to only rely on one approach and therefore the methods must be combined. A valuation specialist uses one to three valuation approaches (or combination thereof) to carry out the appraisal. Typically multiple different results are obtained when several approaches are used, which are then adjusted into the valuation through weighing.

The following table provides an overview of the valuation methodology used and the classification of investment property.

31.12.2019	Fair value	Rent income per year	Medium rent price (eur/m2)	Discount rate	Capitalization rate	Possible change in rent price	Maximum impact to value
Valued according to market approach:							
-commercial real estate	381	25	6,21-7,95	-	-	7%	+/-7%
-residential property	213	11	5,8	-	-	5%	+/-5%
Total investment property	594	36					

31.12.2018	Fair value	Rent income per year	Medium rent price (eur/m2)	Discount rate	Capitalization rate	Possible change in rent price	Maximum impact to value
Valued according to market approach:							
-commercial real estate	381	24	6.21-7.95	-	-	3-8%	+/-7%
-residential property	213	11	-	-	-	5%	+/-5%
Income approach:							
-commercial real estate	310	23	3.61-10.99	13%	11%	3-10%	+/-8%
Total investment property	904	58	-	-	-	-	-

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Note 3 Subsidiaries and goodwill

In May 2017 the Group acquired 100% of the shares of Coop Finants AS in order to grow its market share in consumer loans segment. From the acquisition of subsidiary goodwill was recognized, which includes synergies and intangible assets that were not separately identified. The goodwill is primarily attributable to the profitability of the acquired business, the significant synergies and combined cost savings expected to arise. Goodwill as at 31.12.2019 was 6 757 thousand euros (31.12.2018: 6 757 thousand euros). As at 31.12.2019 and 31.12.2018 goodwill was tested for impairment. Value-in-use calculations are based on following assumptions:

- estimated growth in the volume of loan portfolio is 10-14% per year (2018: 10-53%)
- average increase in net income is 10% per year (2018: 10-12%)
- increase in expenses is 8% (2018: 10%)
- average loan impairment loss is 3,3-3,5% per year (2018: 3,3-3,5%)
- cost of capital of 15% is used as cash flows discount rate (2018: 15%)

While using these key assumptions, management relied on their best estimation of probable expectations. The value-in-use test indicated that recoverable value of the cash-generating unit is exceeding the carrying amount and consequently no impairment losses have been recognized. In case it will not be possible to grow loan portfolio, interest rates in consumer finance market decline while impairment costs will grow in possible deterioration ot the economic environment, there will be need for impairment of goodwill. The sensitivity to key assumptions tested was:

- loan portfolio and net interest income growth up to 2% (2018: 3%)
- increase in expenses 18% (2018: 15%)
- loan impairment losses 4,2-5,2% (2018: 4,0-5,0%)
- cost of capital 15%

Based on the assessement of reasonably possible changes for key assumptions the management has not identified any instances that could cause the carrying amount of cash generating unit to exceed its recoverable amount.

In June 2017 the bank acquired 49% minority share in subsidiary Krediidipank Finants AS, becoming therefore owner of 100% of the shares, amount of the transaction was 2 058 thousand euros. 2 October 2017 AS Krediidipank Finants transferred all its assets and liabilities to Coop Finants AS, the business activities continue under the name of Coop Finants AS. In January 2018 Krediidipank Finants name was changed to CP Vara AS, the company was liquidated in August, 2019.

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Note 4 Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, is the management board of the Parent Company.

The Group divides its business into segments based on both the legal structure and the customer-specific distribution within the Bank. According to the legal structure, the Group has consumer financing and leasing segments that include consumer loans to private customers and leasing products to both private and corporate customers, respectively. Consumer financing segment earns interest incomes from lending and fee commissions from issuing hire-purchase cards. Leasing segment earns interest income from lending. At the end of 2019 the new segment insurance brokerage was added, which earns revenues on intermediating insurance contracts.

Due to the Bank's customer-based division, the Group has corporate banking (legal entities) and retail banking (private individuals) segments. Both segments offer money transferring products and loan products to customers, as well as gather deposits. The segments earn interest income from lending and commissions fees from settlement of payments and bank card transactions.

Segments are the basis for regular monitoring of business results by the Group's management and supervisory boards, and separate financial data is available for the segments. According to the Group's structure, the Group also divides the corporate banking and retail banking segments into more detailed business lines of loans and everyday banking (deposits, settlements). The Group also uses business lines for planning and budgeting, but business lines are not defined as separate segments.

Revenue reported by a segment consists of revenue from external customers and additional interest income or interest expense on inter-segment borrowing, which is based on the internal transfer pricing model in the Group and is shown as elimination in the tables below. The Group does not have any customers whose income would account for more than 10% of the respective type of income. All interest income is earned in Estonia. The geographical breakdown of commission fees is shown in Note 6.

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Segment profits in 2019, in th.euros	Corporate banking	Retail banking	Consumer financing	Leasing	Other*	Elimina-tion	Total
Interest income	7 782	6 475	10 017	2 280	1 744	-2 720	25 578
Incl. external income	7 217	5 835	10 017	2 280	229	0	25 578
Incl. internal income	565	640	0	0	1 515	-2 720	0
Interest expenses	-2 010	-2 501	-867	-839	-1 392	2 720	-4 889
Net interest income	5 772	3 974	9 150	1 441	352	0	20 689
Commission income	712	1 210	1 630	99	74	0	3 725
Commission expense	-396	-686	-260	-11	0	0	-1 353
Net commission income	316	524	1 370	88	74	0	2 372
Other operating income	121	141	360	114	-78	0	658
Net income	6 209	4 639	10 880	1 643	348	0	23 719
Operating expenses	-3 828	-6 295	-3 935	-1 626	-577	0	-16 261
Profit before impairment losses and income tax	2 381	-1 656	6 945	17	-229	0	7 458
Impairment losses (-) or reversals (+)on loans	-556	461	-1 600	-236	0	0	-1 931
Income tax expense	5	-5	0	0	0	0	0
Profit of the year	1 830	-1 200	5 345	-219	-229	0	5 527

*Other includes treasury, subsidiaries Martinoza, Prana Property and Coop Kindlustusmaakler.

Assets and liabilitites as at 31.12.2019, in millions euros	Corporate banking	Retail banking	Consumer financing	Leasing	Other*	Elimina-tion	Total
Loan portfolio	158	211	59	63	174	-205	460
Other assets	43	51	26	18	13	0	151
Total assets	201	262	85	81	187	-205	611
Total liabilitites	170	229	74	69	185	-205	522

Fee and commission income allocation

	Corporate banking	Retail banking	Consumer financing	Leasing	Other	Elimina-tion	Total
Fees on card transactions	222	397	726	0	0	0	1 345
Monthly fees on cards	1	40	865	0	0	0	906
Account opening and management fees	118	550	0	0	0	0	668
Bank transfer fees	223	131	0	0	0	0	354
Gains from foreign exchange transactions	99	14	0	0	33	0	146
Other fee and commission income	87	79	39	99	2	0	306
Total fee and commission income	750	1 211	1 630	99	35	0	3 725

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Segment profits in 2018, in th.euros	Corporate banking	Retail banking	Consumer financing	Leasing	Other*	Elimina-tion	Total
Interest income	5 680	4 952	7 883	1 253	1 371	-1 284	19 855
Incl. external income	5 680	4 952	7 883	1 253	87	0	19 855
Incl. internal income	0	0	0	0	1 284	-1 284	0
Interest expenses	-1 097	-1 536	-530	-369	-828	1 284	-3 076
Net interest income	4 583	3 416	7 353	884	543	0	16 779
Commission income	1 216	888	1 364	33	168	0	3 669
Commission expense	-517	-585	-259	-6	0	0	-1 367
Net commission income	699	303	1 105	27	168	0	2 302
Other operating income	124	140	396	62	-35	0	687
Net income	5 406	3 859	8 854	973	676	0	19 768
Operating expenses	-2 954	-5 030	-3 794	-1 173	-650	0	-13 601
Profit before impairment losses and income tax	2 452	-1 171	5 060	-200	26	0	6 167
Impairment losses (-) or reversals (+)on loans	-701	159	-761	-89	0	0	-1 392
Income tax expense	-14	-8	0	0	0	0	-22
Profit of the year	1 737	-1 020	4 299	-289	26	0	4 753

*Other includes treasury, subsidiaries Martinoza and Prana Property.

Assets and liabilitites as at 31.12.2018, in millions euros	Corporate banking	Retail banking	Consumer financing	Leasing	Other*	Elimina-tion	Total
Loan portfolio	104	161	46	41	86	-109	329
Other assets	47	29	16	8	17	0	117
Total assets	151	190	62	49	103	-109	446
Total liabilitites	137	174	60	41	94	-109	397

Fee and commission income allocation

	Corporate banking	Retail banking	Consumer financing	Leasing	Other	Elimina-tion	Total
Fees on card transactions	201	308	525	0	0	0	1 034
Monthly fees on cards	1	9	827	0	0	0	837
Account opening and management fees	309	350	0	0	0	0	659
Bank transfer fees	469	140	0	0	0	0	609
Gains from foreign exchange transactions	156	10	0	0	167	0	333
Other fee and commission income	80	71	12	33	1	0	197
Total fee and commission income	1 216	888	1 364	33	168	0	3 669

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Note 5 Net interest income

	2019	2018
Interest income calculated using effective interest method:		
Consumer loans and hire-purchase loans	10 017	7 882
Loans to entities	7 181	4 825
Loans to private individuals	5 836	4 161
Bonds	225	406
Interest income on liabilities	36	193
Other assets	3	94
Other similar interest income:		
Leasing	2 280	2 294
Total interest income	25 578	19 855
Customer deposits and loans received	-4 140	-2 484
Subordinated debt	-458	-342
Interest expense on assets	-270	-250
Lease liabilities	-21	0
Total interest expenses	-4 889	-3 076
Net interest income	20 689	16 779

Note 6 Fee and commission income

	2019	2018
Fees on card transactions	1 345	1 034
Monthly fees on cards	906	837
Account opening and management fees	668	659
Bank transfer fees	354	609
Gains from foreign exchange transactions	146	333
Other fee and commission income	306	197
Total fee and commission income	3 725	3 669
Charges on card transactions	-890	-879
Bank transfer fees	-233	-263
Other fee and commission expense	-230	-225
Total fee and commission expense	-1 353	-1 367
Net fee and commission income	2 372	2 302

In 2019, the Group earned 89% of fee and commission income from Estonian residents and 11% from residents of other countries (mostly EU countries). In 2018, 79% of fee and commission income was earned from Estonian residents and 21% from residents of other countries. All fee and commission income is recognised point in time.

Note 7 Payroll expenses

	2019	2018
Wages and salaries	-7 367	-6 137
Social tax, unemployment insurance premiums	-2 513	-2 040
Total	-9 880	-8 177

Social security tax payments include a contribution to state pension funds. The Group has no legal or factual obligation to make pension or similar payments beyond social security tax.

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Note 8 Operating expenses

	2019	2018
Marketing expenses	-1 006	-1 122
Rent of buildings	-304	-743
Administration of information systems	-889	-653
Office expenses	-435	-463
Services purchased	-474	-420
Contributions to Deposit Guarantee Fund	-273	-187
Training and travel expenses	-179	-179
Financial supervision fee instalments	-139	-111
Legal services, state fees	-79	-63
Transport expenses	-58	-47
Membership fees	-21	-18
Insurance	-44	-7
Other operating expenses	-676	-615
Total	-4 577	-4 628

Note 9 Cash and cash equivalents

	31.12.2019	31.12.2018
Cash	21 531	21 721
Mandatory reserve at the central bank *	3 893	2 742
Demand deposits at central bank	94 019	49 321
Demand deposits at credit institutions	2 452	13 755
Term deposits at credit institutions *	400	491
Total	122 295	88 030

* Not included in cash and cash equivalents in the consolidated statement of cash flows.

Term deposits with credit institutions are pledged as collateral. Mandatory reserve in the central bank is the minimum amount that the bank has to hold in the central bank and this amount is not freely usable. Mandatory reserve requirement as of 31.12.2019 was 1% (31.12.2018: 1%) from all financing sources (deposits from customers and loans received). The reserve requirement is to be fulfilled as a monthly average in euros or in foreign securities preapproved by central bank.

Note 10 Financial investments

	31.12.2019	31.12.2018
Government debt securities	1 398	1 929
Debt securities of other non-financial companies	2 663	7 201
Total of debt securities	4 061	9 130
Shares of other non-financial corporations	13	13
Total of equity instruments	13	13
Total of financial investments	4 074	9 143

Debt securities and equity instruments are recognized at fair value through changes in other comprehensive income.

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Note 11 Loans and advances to customers

	31.12.2019	31.12.2018
Total receivables from private individuals	268 329	204 003
incl. consumers loans	62 218	48 560
incl. lease financing	26 424	16 875
incl. mortgage loans and other loans	179 687	138 568
Total receivables from legal entities	197 471	128 558
incl. lease financing	38 127	23 635
incl. other loans to legal entities	159 344	104 923
Total receivables	465 800	332 561
Loss allowances of loans and advances	-5 340	-3 838
Total	460 460	328 723

Finance lease receivables	31.12.2019	31.12.2018
Gross investment – lease payments receivable, incl	71 070	44 584
up to 1 year	23 180	13 280
1-5 years	47 764	29 808
over 5 years	126	1 496
Interest income not received	-6 044	-3 836
up to 1 year	-2 383	-1 436
1-5 years	-3 654	-2 375
over 5 years	-7	-25
Finance lease net investment	65 026	40 748
up to 1 year	20 797	11 844
1-5 years	44 110	27 433
over 5 years	119	1 471

The Group has changed the breakdown of receivables from private individuals by showing only loans issued by its subsidiary Coop Finants AS in the line “consumer loans”. Other small loans issued by the bank are shown in the line “mortgage loans and other loans”.

Note 12 Loan allowances and loan losses

Loan allowances	31.12.2019	31.12.2018
Balance at the beginning of the reporting period	-3 838	-3 644
IFRS 9 first day effect	0	-630
Allowances during the reporting period	-2 460	-1 598
Derecognized during reporting period	958	2 034
Balance of allowance at the end of the reporting period	-5 340	-3 838

Loan losses	31.12.2019	31.12.2018
Allowances during the reporting period	-2 460	-1 598
Receiving written off loans	529	206
Loan losses or reduction of loan losses	-1 931	-1 392

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Note 13 Other financial assets and other assets

	31.12.2019	31.12.2018
Financial assets		
Cash in transit	443	1
Security deposits	314	178
Other receivables	506	154
Total financial assets	1 263	333
Other assets		
Properties under construction	2 489	2 649
Real estate acquired for sale	4 060	4 019
Other assets	207	29
Total assets held for sale	6 756	6 697
Prepayment for financial supervision	131	131
Settlements with the Tax and Customs Board	351	193
Other prepayments	683	613
Total other assets	1 165	937
Investment property	594	904
Total	9 778	8 871

Note 14 Investment property

	31.12.2019	31.12.2018
Carrying amount at the beginning of the period	904	2 398
Sold during period	-290	-1 307
Change in fair value	-20	-187
Carrying amount at the end of the period	594	904
incl. investment property earning rental income	594	904

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Note 15 Tangible and intangible assets

	Right-of-use assets	Land and properties	Other assets	Intangible assets	Total
Carrying amount at 31.12.2017					
incl. acquisition cost	0	565	2 949	2 662	6 176
incl. depreciation	0	-136	-944	-1 496	-2 576
Carrying amount	0	429	2 005	1 166	3 600
Acquisition	0	0	797	1 452	2 249
Sale at carrying amount	0	-290	-9	0	-299
Depreciation charged	0	-7	-460	-329	-796
Carrying amount at 31.12.2018					
Incl. acquisition cost	0	136	3 608	4 113	7 857
Incl. depreciation	0	-4	-1 275	-1 824	-3 103
Carrying amount	0	132	2 333	2 289	4 754
IFRS 16 initial recognition	1 768				
Carrying amount at 01.01.2019	1 768	132	2 333	2 289	6 522
Acquisition and additions	576	0	710	2 035	3 321
Termination of lease contracts	-96	0	0	0	-96
Write-off at carrying amount	0	0	-5	0	-5
Depreciation charged	-526	-3	-663	-612	-1 804
Carrying amount at 31.12.2019					
Incl. acquistion cost	2 248	136	4 105	6 116	12 605
Incl. depreciation	-526	-7	-1 730	-2 404	-4 667
Carrying amount	1 722	129	2 375	3 712	7 938

Note 16 Customer deposits and loans received

	31.12.2019	31.12.2018
Private individuals	338 137	237 279
Legal entities	165 693	137 837
Credit institutions	2 701	10 002
Total	506 531	385 112
Demand deposits	152 189	120 544
Term deposits	327 431	249 864
Issued debt securities	14 103	5 052
Special purpose loans	12 808	9 658
Total	506 531	385 118

The Bank signed a 10-year loan agreement of EUR 8 million with the European Investment Fund (EIF) to finance small and medium-sized enterprises. As at 31.12.2018, 4 million euros has been taken into use and as at 31.12.2019 the whole 8 million euros has been taken into use. The remaining special-purpose loans have been received from the Rural Development Foundation.

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Note 17 Other financial liabilities and other liabilities

	31.12.2019	31.12.2018
Financial liabilities		
Cash in transit	1 248	2 966
Trade payables	368	289
Lease liabilities	1 725	0
Other financial liabilities	1 846	871
Total financial liabilities	5 187	4 126
Other liabilities		
Payables to employees	1 640	1 270
Tax liabilities	380	311
Provisions	455	455
Other liabilities	694	809
Total other liabilities	3 169	2 845
Total	8 356	6 971

Note 18 Subordinated debt

	Year of issue	Interest rate	Maturity date	Amount
Subordinated debt	2017	6.75%	04.12.2027	5 000
Subordinated debt	2019	7.58%	29.03.2029	2 000
Liabilities as at 31.12.2018				5 000
Liabilities as at 31.12.2019				7 000

Accrued interest liability as at 31.12.2018	26
Interest expense calculated during 2019	458
Paid out interest expense during 2019	-458
Accrued interest liability as at 31.12.2019	64

Note 19 Equity

As at 31.12.2018 the share capital of the bank was 38 199 thousand euros, which was divided into 58 385 195 ordinary shares of no par value. In June, 2019 the share capital was raised and additional 3 834 650 shares were issued. In December, 2019 the initial public offering of the shares of the bank was carried out, in result additional 27 236 321 shares were issued. The shares were fully paid in cash. As at 31.12.2019 the share capital of the bank is 60 960 thousand euros, which was divided into 89 456 166 ordinary shares of no par value. The carrying value of one share is 0.68 euros (31.12.2018: 0.65).

According to the articles of association, share capital can be increased to 160 million euros without any amendment to the articles of association.

The bank is granting share options to members of management board, department managers and key employees. Vesting period of the options is 3 years and issue of shares will be decided on the Annual General Meeting of Shareholders or Meeting of the Shareholders close to the vesting date. Reserve of options granted as of 31.12.2019 amounted to 226 thousand euros (31.12.2018: 103 th). Related expenses in statement of profit and loss in 2019 were 123 thousand euros (2018: 103 th). The fair value of options is calculated with Black-

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Scholes model, which uses the share price of the bank, volatility and risk free interest rate as inputs. Employees do not have the possibility to take the specified amount in cash in lieu of the share options. Share options cannot be exchanged, sold, pledged or encumbered. Share options can be inherited. The contract of share options will expire if employee is leaving the company before vesting period, but the Supervisory Board can decide otherwise. In 2019 and in the beginning of 2020 the options for 136 770 shares issued in 2018 February were cancelled. The bank may issue share options for the results of 2019.

Date of issue	Number of shares	Share price
September 2017	1 167 700	0,7305
February 2018	540 310	0,7660
August 2018	120 000	0,8057
January 2019	70 000	0,8420
Total	1 898 010	

According to the requirements of § 336 of the Commercial Code, during each financial year, at least 1/20 of the net profit shall be transferred to the statutory reserve, until the statutory reserve reached 1/10 of the share capital. Once the statutory reserve capital reaches the amount specified in the Commercial Code, no more transfers on account of the net profit will be made to the statutory reserve capital. On a basis of a decision of the general meetings of shareholders, statutory reserve capital may be used to cover losses, as well as to increase share capital. Distributions to shareholders from the statutory reserve capital are not permitted.

Note 20 Contingent assets and liabilities

	31.12.2019	31.12.2018
Financial guarantees	4 161	2 186
Lines of credit and overdraft facilities	38 414	34 917
Total	42 575	37 103

The Group applies the expected credit loss model for contingent liabilities, see Note 2.

The tax authorities may at any time inspect the books and records of the company within 5 years subsequent to the reported tax year, and may as a result of their inspection impose addition tax assessments and penalties. The management is not aware of any circumstances which may give rise to a potential material liability in this respect.

Note 21 Litigations

In 2019, three lawsuits were filed in the courts against the Group (the Group company is in the role of defendant). One court decision was made in January, 2020 and the claim was dismissed. The amount of one claim is 17 thousand euros and one claim is related to challenging the right of superficies taken as collateral of a loan (mortgage amount of 3 million euros).

As at 31.12.2019, a total of EUR 76 thousand plus default interest, was settled in favor of various Group companies as a result of court proceedings. At the same time, the Group had 66 thousand euros (including payment orders) in legal actions (47 thousand euros at the end of 2018), plus default interest. The main content of the claims are receivables from customers arising from different credit agreements. Claims arising from credit agreements have a good perspective and, as a rule, are fully settled by the court.

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Note 22 Leased assets

Until 31.12.2018 office premises were recognized as rent expenses under operating lease terms and the contractual payments were:

	up to 1 year	1-5 years	over 5 years	Total
As at 31.12.2018	147	1 437	353	1 937

As of 01.01.2019 rent agreements are recognized as right-of-use assets and liabilities. Initial change of IFRS 16 and impact on Group assets, liabilities and profit, see Note 1.18, Note 13 and Note 17.

Note 23 Related parties

The following have been considered as related parties:

- A shareholder of significant influence and companies that are part of its group;
- Management of the Group: members of the management board and the supervisory board of the parent company, the head of internal audit and entities controlled by them;
- Those who have the same economic interest as management and entities related to them.

The terms of the loans granted to related parties do not differ from the loans granted to other customers with regard to interest rates. Transactions with related parties are based on the price list and/or are carried out at market value.

Balances	31.12.2019	31.12.2018
Shareholders:		
Loans	58	0
Deposits	275	5 280
Members of the management board and supervisory board and their close relatives and related entities:		
Loans	167	114
Deposits	2 736	1 567

Related party receivables have not been written down during the reporting period.

Transactions	31.12.2019	31.12.2018
Shareholders:		
Interest expenses	1	7
Members of the management board and supervisory board and their close relatives and related entities:		
Interest income of the reporting period	3	3
Interest expenses of the reporting period	10	1
Sale of other goods and services	2	2
Purchase of other goods and services	23	104
Salaries to members of the Management Board and Supervisory Board	537	521

Maximum termination benefits payable to members of the management board on a contingent basis is 175 thousand euros (31.12.2018: the same). Information on stock options issued to members of the Management Board is provided in Note 19.

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Note 24 Basic earnings and diluted earnings per share

In order to calculate basic earnings per share, net profit attributable to owners of the parent has been divided by the weighted average number of shares issued.

	31.12.2019	31.12.2018
Profit attributable to the owners of the parent (in th.euros)	5 527	4 753
Weighted average number of shares (in th.of units)	62 572	58 385
Basic earnings per share (euros)	0,09	0,08
Adjustments for calculation of diluted earnings per share – share options (in th.of units)	2 015	1 556
Weighted average number of shares used for calculating the diluted earnings per share (in th.of units)	64 587	59 941
Diluted earnings per share (euros)	0,09	0,08

Note 25 Events after the balance sheet date

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and by now it has spread across the world, including Estonia, causing disruptions to businesses and economic activity. The Group considers this outbreak to be a non-adjusting post balance sheet event. As the situation is uncertain and rapidly evolving, we do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Group. The impact of this outbreak on the macroeconomic forecasts will be incorporated into the Group's IFRS9 estimates of expected credit loss in 2020.

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Note 26 Separate financial statements of parent company

Statement of Profit or Loss and Other Comprehensive income of parent company

	2019	2018
Interest income calculated using effective interest method	16 905	13 023
Interest and similar expense	-4 892	-3 007
Net interest income	12 013	9 946
Fee and commission income	1 998	2 273
Fee and commission expense	-1 105	-1 118
Net fee and commission income	893	1 155
Rental income from investment properties	11	10
Other income	753	782
Net gains/losses from financial assets measured at fair value	7	-12
Net other income	771	780
Payroll expenses	-8 683	-7 087
Operating expenses	-3 342	-3 373
Depreciation	-1 549	-665
Total operating expenses	-13 574	-11 125
Net profit before impairment losses on loans and advances	103	756
Impairment losses on loans and advances	-381	-553
Net profit/loss before income tax expense	-278	203
Income tax expenses	0	-22
Net profit/ loss for the financial year	-278	181
Other comprehensive income/loss		
Debt instruments measured at fair value through other comprehensive income	155	-239
Comprehensive income/loss for the financial year	-123	-58

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Statement of Financial Position of parent company

	31.12.2019	31.12.2018
Assets		
Cash and cash equivalents	122 256	88 030
Debt securities at fair value change through other comprehensive income	4 061	9 130
Equity instruments at fair value through other comprehensive income	13	13
Loans and advances to customers	447 016	320 565
Investments in subsidiaries	16 046	15 970
Other financial assets	845	237
Right-of-use assets	1 722	0
Tangible and intangible assets	4 541	3 670
Other assets	1 006	669
Total assets	597 506	438 247
Liabilities		
Customer deposits and loans received	508 455	386 624
Lease financial liabilities	1 725	0
Other financial liabilities	1 594	3 284
Other liabilities	2 470	1 498
Subordinated debt	7 064	5 026
Total liabilities	521 308	396 432
Shareholders' equity		
Share capital	60 960	38 199
Share premium	11 797	175
Statutory reserve capital	2 526	2 288
Retained earnings	688	1 204
Other reserves	227	-51
Total shareholders' equity	76 198	41 815
Total liabilities and shareholders' equity	597 506	438 247

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Statement of Cash Flows of parent company

	2019	2018
Cash flows from operating activities		
Interest received	16 509	12 958
Interest paid	-4 089	-2 240
Fees and commissions received	1 998	2 273
Fees and commissions paid	-1 105	-1 118
Other received income	778	788
Salaries paid	-8 491	-6 917
Other operating expenses paid	-3 342	-3 355
Total cash flows from operating activities before changes in operating assets and liabilities	2 258	2 389
Change in operating assets:		
Loan receivables from customers	-126 359	-84 275
Change of mandatory reserve in central bank	-1 151	-135
Other assets	-943	611
Change in operating liabilities:		
Change in client deposits and loans received	121 066	68 795
Other liabilities	-1 072	1 982
Net cash flows from operating activities	-6 201	-10 633
Cash flows from investing activities		
Acquisition of property, plant and equipment	-1 895	-1 852
Acquisition of debt instruments	0	-2 632
Sale and redemption of debt instruments	4 999	4 738
Increase of subsidiary's equity	-340	-360
Acquisition of a minority interest in a subsidiary	264	0
Total cash flows from investing activities	3 028	-106
Cash flows from financing activities		
Contribution to share capital	34 383	0
Emission of subordinated bonds	2 000	0
Total cash flows from financing activities	36 383	0
Effect on exchange rate changes on cash and cash equivalents	-7	4
Change in cash and cash equivalents	33 203	-10 735
Cash and cash equivalents at beginning of the period	84 760	95 495
Cash and cash equivalents at end of the period	117 963	84 760
Cash and cash equivalents balance is comprised of:	117 963	84 760
Cash on hand	21 531	21 721
Demand deposits in central banks	94 019	49 321
Demand and short-term deposits in credit institutions	2 413	13 718

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Statement of Changes in Equity of parent company

	Share capital	Share premium	Statutory reserve capital	Other reserves	Revaluation reserve	Retained earnings	Total equity
Balance as at 31.12.2017	38 199	175	2 070	0	0	1 619	42 063
Change in initial application of IFRS9: Loan portfolio and loan commitments	0	0	0	0	0	-292	-292
Debt securities	0	0	0	0	105	-85	20
Balance as at 01.01.2018	38 199	175	2 070	0	105	1 242	41 791
Change in reserves	0	0	218	0	0	-219	-1
Share options	0	0	0	103	0	0	103
Net profit	0	0	0	0	0	181	181
Comprehensive income	0	0	0	0	-239	0	-239
Total comprehensive income	0	0	0	0	-259	181	-78
Balance as at 31.12.2018	38 199	175	2 288	103	-154	1 204	41 815
Increase of share capital on account of share premium	175	-175	0	0	0	0	0
Paid in share capital	22 586	11 797	0	0	0	0	34 383
Change in reserves	0	0	238	0	0	-238	0
Share options	0	0	0	123	0	0	123
Net profit	0	0	0	0	0	-278	-278
Comprehensive income	0	0	0	0	155	0	155
Total comprehensive income	0	0	0	0	155	-278	-123
Balance as at 31.12.2019	60 960	11 797	2 526	226	1	688	76 198

Adjusted unconsolidated equity	
Book value of holding under control or significant influence	-16 046
Value of holdings under control or significant influence, calculated by equity method	29 199
Adjusted unconsolidated equity as at 31.12.2019	89 351

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Management Board declaration

All data and supplementary information presented in the 2019 consolidated financial statements of AS Coop Pank is true and complete, no omissions have been made with regard to data or information that would affect the content or meaning of the information. The consolidated financial statements give a true and fair view of the financial position, performance and cash flows of AS Coop Pank Group.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and referred to in § 17 of the Accounting Act of Estonia. These 2019 consolidated financial statements of AS Coop Pank are in compliance with the laws of the Republic of Estonia. The consolidation group is going concern.

The 2019 consolidated annual report of AS Coop Pank will be presented to the general meeting of shareholders for approval in April 2020. The previous 2018 consolidated annual report was approved by the general meeting of shareholders at 29.04.2019.

Margus Rink
Chairman of the Management Board

Hans Pajoma
Member of the Management Board

Heikko Mäe
Member of the Management Board

Kerli Lõhmus
Member of the Management Board

16.03.2020

Independent Auditor's Report

To the Shareholders of Coop Pank AS

(Translation of the Estonian original)*

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Coop Pank AS and its subsidiaries (together – "the Group") as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 16 March 2020.

What we have audited

The Group's consolidated financial statements comprise:
- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

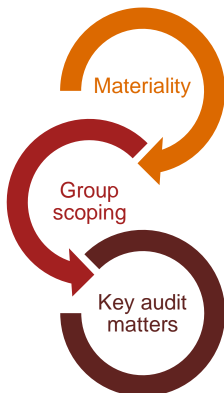
Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Auditors Activities Act of the Republic of Estonia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Auditors Activities Act of the Republic of Estonia.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Group are in accordance with the applicable law and regulations in the Republic of Estonia and that we have not provided non-audit services that are prohibited under § 59[1] of the Auditors Activities Act of the Republic of Estonia. The non-audit services that we have provided to the Group in 2019 are disclosed in the management report.

Our audit approach

Overview



Overall group audit materiality is EUR 894 thousand, which represents approximately 1% of net assets of the Group.

A full scope audit was performed by PwC Estonia for all Group entities covering substantially all of the Group's consolidated assets, liabilities, revenues and expenses.

Valuation of loans and advances to customers

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Management Board made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall Group audit materiality	EUR 894 thousand
How we determined it	Approximately 1% of net assets of the Group
Rationale for the materiality benchmark applied	We have applied this benchmark, as the Group is going through rapid growth. Therefore, net assets is a relevant measure used by investors, regulators and other stakeholders when assessing the performance of the Group. We chose 1%, which is consistent with quantitative materiality thresholds used for this benchmark.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of loans and advances to customers *Refer to Note 1 "Accounting principles", Note 2 "Risk management", Note 11 "Loans and advances to customers" and Note 12 "Loan allowances and loan losses" for further detail.* As at 31 December 2019 net carrying amount of loans and advances to customers amounted to EUR 460 460 thousand and related impairment allowance to EUR 5 340 thousand. We focused on this area because management uses complex models with subjective inputs to assess the timing and the amount of expected credit losses. Key areas requiring significant management judgements and modelling in calculating expected credit loss (ECL) include: • evaluating the criteria for assessment of significant increase in credit risk and allocation of loans to stage 1, 2 or 3; • assessing accounting interpretations and modelling assumptions used to build the models that calculate ECL; • the modelling and calculation of key parameters of ECL model, including probability of default (PD), loss given default (LGD) and exposure at default (EAD);	We assessed whether the Group's accounting policies in relation to the impairment of loans and advances to customers complied with International Financial Reporting Standards as adopted by the European Union (IFRS). We assessed the design and operating effectiveness of key controls over ECL data and respective calculations, including: • review and approval of customer credit risk grades; • review and update of collateral values; • regular customer reviews; We performed detailed testing over: • the completeness and accuracy of data used in the ECL calculations; • the compliance of key inputs used in ECL calculation system with IFRS 9 methodology; • the accuracy and compliance of 12-month and lifetime ECL calculations with IFRS 9 methodology; • the accuracy and completeness of data used for staging of loans (including applying the criteria for determining significant increase in credit risk and definition of default); • the internal assignment of credit risk grades, which serve as inputs into the ECL models;

- determining the macro-economic indicators and incorporating forward-looking information into the ECL model;
- estimating the above-mentioned indicators for reliable future period and for three different scenarios (base scenario, negative and positive scenario) and assigning probabilities to those scenarios; and
- estimating ECL for stage 3 loans (individual assessment).

- the correctness of information on collaterals and their values in the loan systems, which serve as an input into the ECL model; and
- the completeness of loans subject to stage 3 assessment and related ECL calculations.

We have assessed the reasonableness of key assumptions made by management, which serve as critical inputs in the ECL model, such as weights of different scenarios, point in time PD estimate, key forecasts of macroeconomic information.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

In order to achieve this objective, based on the size and risk characteristics, we performed a full scope audit of the financial information for the following entities within the Group: Coop Pank AS (Estonia), Coop Finants AS (Estonia) and Coop Liising AS (Estonia). Additionally we performed an audit of specific balance sheet and income statement line items for aktsiaselts Martinoza (Estonia), Coop Kindlustusmaakler AS (Estonia) and SIA Prana Property (Latvia).

At the Group level we tested the consolidation process and performed additional analytical procedures over the components in scope to confirm our conclusion that no material misstatements exist that may affect the consolidated financial statements. Information describing the structure of the Group is included in Note 1 of the consolidated financial statements.

Other information

The Management Board is responsible for the other information. The other information comprises the Management report, Management Board declaration, Proposal for profit allocation and Revenues by EMTA classification (the Estonian classification of economic activities) but does not include the consolidated financial statements and our auditor’s report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Management Board and those charged with governance for the consolidated financial statements

The Management Board is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Management Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Management Board is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Appointment and period of our audit engagement

We were first appointed as auditors of AS Coop Pank on 22 April 2014 for the financial year ended 31 December 2014. In accordance with the Auditors Activities Act of the Republic of Estonia and the Regulation (EU) No 537/2014, our appointment as the auditor of Coop Pank AS can be extended for up to the financial year ending 31 December 2033.

AS PricewaterhouseCoopers

Tiit Raimla
Certified auditor in charge, auditor's certificate no.287

Evelin Lindvers
Auditor's certificate no.622

16 March 2020

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* *This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

Proposal for profit allocation

The Management Board of AS Coop Pank proposes to the General Meeting of the Shareholders to allocate the Group's net profit for the financial year 2019 in the amount of 5 527 thousand euros as follows:

1. allocate 276 thousand euros to statutory reserve capital;
2. and 5 251 thousand euros to retained earnings.

Revenues by EMTA classification (the Estonian classification of economic activities)

Title	Economic activity based on EMTAK	Code	Sales income (in euros)
Finance activities	Credit institutions (separate)	64191	19 673 518
Finance activities	Credit institutions (consolidated)	64191	29 960 145

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